shawbrook

Shawbrook Group plc

Annual Report and Accounts

2023

Banking for the real world.

Shawbrook in numbers

Exceptional customer franchise

3
Customer franchises

15
Customer verticals

4.7/5★
Trustpilot score[1]
(2022: 4.6/5)

c.560,000
Customers served
(2022: c.425,000)

Innovative mindset driving growth

24%
Annual loan book growth[2] to £13.3 billion
(2022: £10.5 billion)

4.9%
Net interest margin
(2022: 5.1%[3])

£302 million
Underlying profit before tax
(2022: £238 million);
£287 million Statutory profit before tax
(2022: £233 million)

84%
Employee engagement score
(2022: 82%)

1,435
Employees[4]
(2022: 1,198)

Robust and sustainable platform

38.2%
Underlying cost to income ratio (2022: 40.0%);
40.9% Statutory cost to income ratio
(2022: 41.1%)

51 bps
Cost of risk
(2022: 51 bps)

20.2%
Underlying return on tangible equity (2022: 20.1%);
19.1% Statutory return on tangible equity (2022: 19.5%)

12.9%
CET1 ratio
(2022: 12.7%[5])

16.4%
Total capital ratio
(2022: 15.6%[5])

Note: Reconciliation from underlying to statutory results is provided on page 11.

1 The Group's total Trustpilot score (excluding The Mortgage Lender Limited (TML) and Bluestone Mortgages Limited (BML)) as at February 2024.
2 The annual growth rate of 24% represents the loan book growing to £13.0 billion and excludes the BML acquisition. Including the acquisition, the loan book was £13.3 billion and represented a growth rate of 27%.
3 Excluding gain on sale, net interest margin was 5.0%.
4 The Group's average number of employees is calculated in line with the Companies Act 2006 requirement.
5 Risk-weighted assets as at 31 December 2022 were restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swaps. Risk-weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

Contents

shawbrook.co.uk
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About Shawbrook

We provide finance to a wide range of customer segments that value the premium experience, flexibility and certainty we deliver.

Our ambition is to deliver for more customers in more markets. We will do this by combining the innovative mindset and agility of a start-up with the scale and financial strength of a large business.

We do this by focusing on our three strategic priorities

Exceptional customer franchise

- Diversified offering, supporting clearly defined customer groups in carefully selected markets.
- Innovative lending propositions tailored to meet specific and often event-driven funding needs.
- Delivering excellent experiences and positive customer outcomes.

Innovative mindset driving growth

- A culture that drives innovation and agility by leveraging digital capabilities.
- Consistent balance sheet growth, delivering strong risk-adjusted returns.
- Attractive destination for the best technology and banking talent.

Robust and sustainable platform

- Sophisticated data-driven and forward-looking risk management.
- Operationally efficient and cost-effective model, with conservative capital management.
- Delivering long-term sustainable value for our stakeholders.

The business model we have created is unique and difficult to replicate

Our diversified product offering

Enterprise franchise

SME

Supports established and fast-growth UK SMEs with a range of debt-based financing solutions, deployed through the following business units:

Structured lending

- Financial sponsors
- Speciality finance
- Specialist markets
- Corporate lending
- Development finance

Digital SME lending

£2.7bn
loan book

Real Estate

Supports the UK property sector with a range of diverse commercial and residential mortgage products offered to professional landlords and property investors.

- Buy-to-let
- Bridging finance
- Commercial investment

£6.1bn
loan book

Consumer franchise

Consumer lending

Provides a range of secured and unsecured personal lending products to consumers for multiple purposes, distributed through a range of partners and direct through our digital proposition.

- Unsecured personal loans
- Motor finance

£0.6bn
loan book

Savings

Provides a wide range of savings solutions with competitive interest rates including easy access, notice and fixed term accounts as well as fixed and easy access cash ISAs.

- Personal savings
- Business savings

£13.6bn
deposits

Retail Mortgage Brands

THE MORTGAGE LENDER real life lending | Bluestone. mortgages

The Mortgage Lender Limited (TML) and Bluestone Mortgages Limited (BML)

Support customers with more complex income profiles, including the self-employed, entrepreneurs and first-time buyers with residential mortgage products, as well as UK landlords with a range of specialist buy-to-let mortgage products.

- Owner-occupied mortgages
- Buy-to-let

£3.8bn[1]
loan book

Note: The combined loan book splits provided above (as at 31 December 2023) do not total £13.3 billion due to rounding adjustments.

1 Excluding the acquisition of BML, the Retail Mortgage Brands loan book was £3.5 billion.

A unique and difficult to replicate business model

1 Diversified proposition

Enterprise franchise


SME


Real Estate

Consumer franchise


Consumer Lending


Savings

Retail Mortgage Brands

The Mortgage Lender Limited (TML)

Bluestone Mortgages Limited (BML)

2 Enabled by a proven business model

Origination

Multi-channel distribution

- Intermediaries
- Direct digital
- Digital marketplaces
- Platform lending
- Inorganic

'Best of both' capabilities

Using technology intelligently to enhance human judgement, automating where it makes sense

- Human expertise and ingenuity
- Excellent customer experiences
- Modular technology and data capabilities

Revenue model

Optionality through multiple revenue sources

- Interest income
- Fee income
- Structured asset sales

3 Fuelled by stable and scalable funding

Liquidity

Our strong and predominantly retail deposit funded balance sheet is supplemented with wholesale funding

- Retail deposits
- Wholesale funding

Capital

Backed by supportive investors, our strong equity position is further strengthened by our ability to issue debt instruments and securitise selected assets for funding and capital optimisation purposes

- Equity
- Debt instruments
- Securitisations

Creating sustainable competitive advantage

We provide finance to a wide range of customer segments that value the premium experience, flexibility and certainty we deliver.

Our three strategic priorities	Exceptional customer franchise	Innovative mindset driving growth	Robust and sustainable platform
What it means	• Diversified offering, supporting clearly defined customer groups in carefully selected markets. • Innovative lending propositions tailored to meet specific and often event-driven funding needs. • Delivering excellent experiences and positive customer outcomes.	• A culture that drives innovation and agility by leveraging digital capabilities. • Consistent balance sheet growth, delivering strong risk-adjusted returns. • Attractive destination for the best technology and banking talent.	• Sophisticated data-driven and forward-looking risk management. • Operationally efficient and cost-effective model, with conservative capital management. • Delivering long-term sustainable value for our stakeholders.
2023 progress	• **Developed innovative products and services** including a new digital SME term loan product to support businesses to finance capital expenditure. • **Streamlined and accelerated customer journeys, using enhanced digital capabilities.** This included the launch of our Next Generation Underwriting Hub in our Real Estate business and a product transfer solution for our TML and BML customers. • **Implemented Artificial Intelligence (AI) and machine learning tools** in order to transform our customer and colleague experience, including new cloud contact-centre technology. • **Introduced a dedicated large loans relationship team** to support our Real Estate customers and brokers. • **Expanded our portfolio and distribution of development finance products** to allow us to reinvest in new schemes.	• **Continued to attract exceptional talent from multiple fields**, with 29% YoY growth in our Technology and Product functions. • **Continued to embed our digital, product and data-driven ways of working** to build a modern and agile organisational model. • **Launched leadership tools** to develop our future leader and emerging talent pools, including a new Leadership Framework and mentoring platform. • **Continued improvements to our employee value proposition,** helping to reinforce our purpose and culture.	• **Introduced a dedicated data insight team to enhance our forward-looking capabilities** and deployed over 20 interactive dashboards and daily reporting. • **Adopted a more agile approach to risk management** using data and trigger based Management Information (MI) to identify potential problem loans. • **Implemented new technology** to create a single source for identification and management of non-financial risks across all lines of defence. • **Enhanced our climate data**, including the development of climate risk MI dashboards. • **Further optimised our capital stack** with the issuance of Tier 2 debt.
How we measure success	✓ Customer and broker satisfaction ✓ Customer growth ✓ Industry recognition	✓ Employee engagement and satisfaction ✓ Internal mobility ✓ Brand perception	✓ Proactive risk identification ✓ Operational costs ✓ External impact

Chairman's statement
John Callender

"I am pleased to introduce Shawbrook's 2023 Annual Report and Accounts, following another year of excellent progress for the Group. 2023 was a year that again demonstrated the strengths of our unique business model. We surpassed ambitious goals as we continued to prioritise and invest significantly in both technology and talent."

Our ability to deliver innovative new products and a premium service across our diverse specialist markets ensured we continued to attract new UK SMEs, professional property investors and consumers to Shawbrook.

Diversified offering serving clearly defined customer needs

The consistent demand for our specialist lending offering across the markets we serve resulted in strong growth of the Group's loan book. Throughout the year we continued to provide innovative finance solutions to more customers than ever before. This included c.34,000 SMEs and professional landlords, enabling a critical part of the UK economy to gain access to the specialist finance they need to support the efficient growth of their own businesses.

We continue to carefully scale our proposition to address the demand for the premium service, flexibility and certainty that we can offer. In May 2023, we completed the acquisition of Bluestone Mortgages Limited (BML), increasing and diversifying our presence in the UK mortgage market. The ability to accelerate our strategy through inorganic expansion, when the right opportunities present themselves, is an established part of our model.

2023 was another year of heightened market volatility, with elevated geopolitical tensions and the UK economy impacted by persistently higher levels of inflation. As a responsible business, we have a critical role to play in supporting customers under increasing pressure from rising living and business costs.

Robust and resilient balance sheet

The resilience of our unique 'best of both' model was clear to see during the year. Notwithstanding the wider uncertainty felt across the banking sector, the robustness of our balance sheet was demonstrated by strong growth across both our lending and deposit books.

The continued growth in our diversified asset portfolio is only possible as a consequence of our strong presence in the savings market, built on high levels of trust, transparency and engagement. We made further enhancements to our digital proposition and raised our profile in the market by actively encouraging savers to take advantage of rising rates. As a result, we attracted record numbers of new deposit customers direct to Shawbrook and our savings book increased to £13.6 billion, helping to fuel our growth ambitions.

From a capital perspective, our credibility within the debt markets and the capabilities within our treasury function was further demonstrated with the successful issuance of an additional £90 million of Tier 2 capital in October 2023. The additional capital will help to optimise our capital base, while providing the Group with further capacity to continue growing prudently over the coming years.

A culture that drives innovation and agility

Our aspiration is to be recognised as a destination that both attracts and retains the best talent. During the year, we continued to grow our workforce in scale and experience across all areas of the organisation, from risk management and credit structuring to technology, engineering and data.

We also continued to foster a culture that drives innovation, investing in both our future leaders and emerging talent. This included the launch of a new Leadership Framework that articulates the attributes needed to succeed as a leader at Shawbrook. Our exceptional engagement score continued to demonstrate our strong culture, achieving an improved score of 84% in 2023.

The Board recognises that the Group's success is only possible because of our colleagues' hard work and commitment, so on behalf of the Board, I would like to personally thank them all.

Deepening our positive impact

Delivering long-term sustainable value for all of our stakeholders remains a strategic priority and, as such, the Board and I are fully committed to delivering our Environmental, Social and Governance (ESG) strategy. From playing a role in addressing the climate challenge, to the chronic shortage of housing in the UK by supporting the development of new homes, we are committed to making a positive impact.

Providing sophisticated funding and a premium service to growth-focused businesses is supporting investment and job creation. We are also actively working with our SME customers to guide future thinking in how Shawbrook can facilitate positive change and help them to achieve their own sustainability goals.

Our climate strategy is a fundamental part of our ESG strategy and our climate ambition remains to support a just transition to net zero in the UK. From monitoring the Group's progress, to agreeing our Sustainable Finance Framework and undertaking climate training, the Board continues to actively oversee the Group's climate strategy. Further details on our progress made during the year can be found in our Climate Report on page 152.

I continue to personally support our wider communities strategy and am delighted with the progress we have made during 2023. From hosting our inaugural charity dinner in support of the successful Empower Her project to our involvement in the Go Forward programme (both in partnership with Saracens Foundation), these initiatives are highlighting the impact we can make. You can find out more about these activities and progress against our strategy in our ESG Report on page 22.

Creating value for our stakeholders

In undertaking its duties, the Board continues to be mindful of the need to appropriately balance the interests and expectations of the Group's stakeholders. Throughout the year we maintained open and transparent dialogue with all of our stakeholders to bring their valued perspectives into the Boardroom. Details of our stakeholder engagements can be found in our S172 statement on page 44

Looking ahead

Whilst inflation is gradually receding, volatility in the UK economy remains. This, alongside the upcoming election and heightened geopolitical tensions, will likely lead to another challenging year. However, the proven flexibility of our model and strong capital and liquidity base mean we can adapt quickly to any challenges that may arise. This, combined with the breadth of our offering across multiple customer segments, gives us optionality to deploy capital to maximise opportunities as they emerge.

John Callender
Chairman

Chief Executive Officer's statement Marcelino Castrillo

"2023 was another exceptional year for Shawbrook as we continued to provide finance to a diverse range of customer segments that value the premium experience, flexibility and certainty we deliver."

Our approach has again delivered a strong set of results, with underlying profit before tax of £302 million and underlying return on tangible equity of 20.2% (£287 million and 19.1% respectively on a statutory basis).

The business model we have created is unique and difficult to replicate, centred around our 'best of both' approach that combines deep human expertise with advanced digital, technology and data capabilities. This enables us to serve customers with specific and often event-driven funding needs at scale, while maintaining operational efficiency with our underlying cost to income ratio reducing further to 38.2% (40.9% on a statutory basis), whilst achieving a LTV/CAC ratio of 8.0x[1].

An exceptional customer franchise

We have a diversified offering, with our innovative propositions tailored to specific customer needs across a breadth of carefully selected markets within the SME, Real Estate and Consumer sectors. Our products range from complex structured credit facilities for growth-focused businesses to mortgages for professional landlords and property investors, as well as simple loans for consumers delivered digitally. During the year, we also expanded our presence in the specialist residential mortgage market with the acquisition of BML.

Technology continues to accelerate the pace of change across the financial services industry, driven by AI and machine learning. The Group is embracing this opportunity to transform our customer and colleague experience. This has so far included the implementation of new cloud contact-centre technology, driving enhanced customer experience with in-depth sentiment analysis helping us to identify customers that may require additional support. We have also embedded generative AI into our software development workflow to support agility and drive productivity gains for our engineers.

Our ability to deliver tailored lending propositions is driven by a deep understanding of our customers' needs. During the year we leveraged the same AI technology to advance our approach to employing real-time customer feedback and insights, supporting service enhancements and product innovation. This has helped us to provide deeper and faster analysis of customer sentiment, trends and target areas of improvement.

Innovative mindset driving growth

Our strategy is enabled by a modern organisational model, combining customer focus, sophisticated credit structuring and risk management capabilities with our product, delivery and engineering expertise. Being a destination for the best people and retaining our talent is a strategic priority and essential for the longevity of our business. A strong employer brand and customer-first culture are fostered through an inclusive environment where our people are motivated through meaningful work.

We continue to attract exceptional talent from multiple fields within digital, technology, data science and product, with our Technology and Product functions growing by c.29% during the year. The ways of working adopted across these areas mean that digital, product and data have now become a vehicle for embedding an agile culture across the organisation. This approach has enabled us to accelerate the pace at which we can deliver new innovative solutions, improving both customer and colleague experiences. In 2023 this included the launch of our Next Generation Underwriting Hub, which digitalised the underwriting process to maximise the time available for underwriters to make valuable lending decisions. We also expanded our auto-decisioning capabilities within our Digital SME lending proposition, giving more customers certainty with faster decisions.

1 Group's customer lifetime value/customer acquisition cost (see other information section for definition).

Robust and sustainable platform

The strength and resilience of our platform has once again been proven during 2023. Enabled by both our organisational agility and continued financial strength, we have demonstrated the ability to capitalise on opportunities as they present themselves.

Our growth is fuelled by a stable deposit base. During the year we continued to evolve our digital savings proposition, helping us to deliver a premium experience, choice and consistently great value to smart savers. Further expanding our brand presence in the deposit market, in 2023 we served c.350,000 savings customers and increased our retail deposit base to £13.6 billion.

The overall credit quality of our loan book also remains strong. Supported by a prudent approach to underwriting, including low loan-to-value and high debt service coverage ratios, our proactive approach to portfolio monitoring has proven resilient. We continue to invest in our data-driven forward-looking risk framework, helping us to manage risk and early warning indicators in the portfolio. This included the build and implementation of a new cloud-based analytics platform that will enable enhanced portfolio monitoring and support AI and machine learning use cases.

The long-term sustainability of our business enables us to deliver value for all of our stakeholders. During 2023 many of our people were actively involved in initiatives which had a positive impact on the communities we operate in, beyond just the products and services we offer. We also remain committed to reducing our climate impact and I am pleased with the progress we have made this year to embed our strategy. More information about these initiatives can be found in our ESG Report on page 22 and Climate Report on page 152.

Looking ahead

While the macroeconomic landscape continues to evolve, we are encouraged by both the resilient performance we have delivered to date and the improving sentiment seen across our markets.

The attractive returns we generate year on year give us the confidence to continue to pursue our ambition – to deliver for more customers in more markets by combining the innovative mindset and agility of a start-up with the scale and financial strength of a large business.

The embedded optionality of the platform we have created at Shawbrook enables us to both react quickly to attractive inorganic opportunities as they arise, whilst continuing to pursue the significant organic growth we see in our existing markets.

Marcelino Castrillo
Chief Executive Officer

Financial review
Dylan Minto

"Our full year results demonstrate our consistent focus on growth and efficiency, delivering an underlying profit of £302 million, an underlying return on tangible equity of 20.2%, loan book growth of 24%[1], a stable cost of risk at 51 bps and an underlying cost to income ratio of 38.2%. While the challenging economic conditions during the year created some uncertainty in the markets we serve, our underlying results reflect our ability to support our customers' evolving needs by combining the expertise of our people with great technology – both of which we continue to invest in."

We continue to focus on our strategic initiatives, which include further digitalisation, organic growth and acquisition opportunities as highlighted by our successful acquisition and integration of BML during the year. All of these are underpinned by our prudent capital and liquidity management as evidenced by our successful issuance of a £90 million Tier 2 subordinated note during the year. On a statutory basis, our profit before tax of £287 million and return on tangible equity of 19.1% were impacted by the recognition of a provision at the half year against historical timeshare loans for which we are actively pursuing recovery options.

Performance indicators

Definitions of all metrics included in the following tables are provided on page 254.

Financial performance metrics

In the year ended 31 December 2023, there are underlying adjustments of £15.4 million (2022: £5.0 million) (see page 11). The following table is shown on both an underlying and statutory basis.

	Underlying			Statutory		
	2023 %	2022 %	Change	**2023 %**	2022 %	Change
Gross asset yield	**9.7**	6.8	2.9%	**9.7**	6.8	2.9%
Liability yield	**(4.8)**	(1.8)	(3.0%)	**(4.8)**	(1.8)	(3.0%)
Net interest margin	**4.9**	5.1	(0.2%)	**4.9**	5.1	(0.2%)
Management expenses ratio	**(1.9)**	(2.0)	0.1%	**(2.0)**	(2.1)	0.1%
Cost to income ratio	**38.2**	40.0	(1.8%)	**40.9**	41.1	(0.2%)
Cost of risk	**(0.51)**	(0.51)	–	**(0.51)**	(0.51)	–
Return on lending assets before tax	**2.5**	2.5	–	**2.4**	2.5	(0.1%)
Return on tangible equity	**20.2**	20.1	0.1%	**19.1**	19.5	(0.4%)

1 The annual growth rate of 24% represents the loan book growing to £13.0 billion and excludes the BML acquisition. Including the acquisition, the loan book was £13.3 billion and represented a growth rate of 27%.

Financial position metrics

	2023	2022 (Restated)[1]	Change
Assets and liabilities			
Loan book (£m)	**13,310.8**	10,495.2	26.8%
Average principal employed (£m)	**11,854.4**	9,375.7	26.4%
Customer deposits (£m)	**13,562.7**	10,914.5	24.3%
Wholesale funding (£m)	**1,867.8**	1,615.1	15.6%
Liquidity			
Liquidity coverage ratio (%)	**262.8**	321.3	(58.5)
Capital and leverage[2]			
Common Equity Tier 1 capital ratio (%)	**12.9**	12.7	0.2%
Total Tier 1 capital ratio (%)	**14.3**	14.3	–
Total capital ratio (%)	**16.4**	15.6	0.8%
Leverage ratio (%)[2]	**8.2**	8.8	(0.4%)
Risk-weighted assets (£m)	**8,701.3**	7,463.1	16.6%

1 Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swaps. Risk-weighted assets have increased by £80.6 million from £7,382.5 million to £7,463.1 million. Capital and leverage ratios have also been restated to reflect these adjustments.

2 Capital and leverage metrics are shown on a transitional basis after applying IFRS 9 transitional arrangements. A comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 143.

Summary of statutory results for the period

	2023 £m	2022 £m	Change
Operating income[1]	**1,153.8**	640.8	80.1%
Interest expense and similar charges	**(567.3)**	(164.6)	(244.7%)
Net operating income	**586.5**	476.2	23.2%
Administrative expenses	**(226.6)**	(194.7)	(16.4%)
Impairment losses on financial instruments	**(60.1)**	(47.7)	(26.0%)
Provisions	**(13.1)**	(0.8)	n/a[2]
Total operating expenses	**(299.8)**	(243.2)	(23.3%)
Statutory profit before tax	**286.7**	233.0	23.0%
Tax	**(74.6)**	(58.3)	(28.0%)
Statutory profit after tax	**212.1**	174.7	21.4%

Reconciliation of underlying to statutory results

	2023 £m	2022 £m
Underlying profit before tax	**302.1**	238.0
Corporate activity costs	**(4.0)**	–
Timeshare provision charge	**(11.4)**	–
Strategic review	**–**	(5.0)
Total underlying adjustments	**(15.4)**	(5.0)
Statutory profit before tax	**286.7**	233.0

The following adjustments have been excluded from the underlying results:

- **Corporate activity costs:** represents costs incurred in 2023 primarily relating to the acquisition of BML (see Note 9 of the Financial Statements).
- **Timeshare provision charge:** represents the provision charge recognised in 2023 in relation to complaints from customers about holiday ownership (timeshare) products (see Note 33 of the Financial Statements).
- **Strategic review:** represents costs incurred in 2022 in relation to a strategic review undertaken with regard to the Group's ownership.

Additional reconciliation from underlying to statutory results is provided in Note 10 of the Financial Statements on page 211.

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

2 The % change here is not comparable and irrelevant to the reader as it is an outlier change.

Strong loan growth and careful cost management delivered enhanced profitability against a challenging economic backdrop

Underlying profit before tax increased by 26.9% to £302.1 million (2022: £238.0 million). Statutory profit before tax increased by 23.0% to £286.7 million (2022: £233.0 million) reflecting provisions of £13.1 million (2022: £0.8 million) and corporate activity costs of £4.0 million. The provision includes £11.4 million relating to historical timeshare loans where we are actively pursuing multiple routes of recovery.

During the period, statutory net operating income increased by 23.2% to £586.5 million reflecting loan book growth of £2.8 billion. The loan book now stands at £13.3 billion following continued strong originations in our core SME and property markets and includes £0.3 billion of growth from loans acquired as part of the acquisition of BML, which completed in May 2023. Our gross asset yield increased to 9.7% (2022: 6.8%), as we repriced portfolios reflecting the Bank of England base rate increases, higher Treasury income and benefited from prudent interest rate risk hedging programmes.

Our overall funding costs increased during the period, reflecting growth in customer deposits and the increase in Bank of England base rate, with the total liability yield increasing to 4.8% (2022: 1.8%). Overall the net interest margin fell slightly to 4.9% (2022: 5.1%).

Investing in and strengthening our data capabilities and innovative technology solutions across the business remains a core focus. We believe this will further support and enhance our customer and distribution propositions and drive operational efficiencies. Administrative expenses (excluding the underlying adjustments for corporate activity costs and 2022's strategic review) increased by 17.3% to £222.6 million (2022: £189.7 million) reflecting continued investment in our digital strategy, seven months of BML operating costs and higher employee costs to support our growth strategy.

As detailed in Note 33 we have recognised a statutory provision of £13.1 million (2022: £0.8 million), of which £11.4 million reflects historical timeshare claims and we have disclosed as an underlying adjustment. We continue to work closely with the Financial Ombudsman Service in relation to customers' claims and have started to redress customers where claims have merit. We expect substantial reimbursement of redress claims in the future but cannot record any compensation until it is virtually certain in accordance with IAS 37.

The underlying cost to income ratio improved to 38.2% (2022: 40.0%) and the management expenses ratio improved to 1.9% (2022: 2.0%).

Prudent risk appetite and loan portfolio management

Careful and robust management of our loan book is a key focus and after reviewing the economic scenario weightings used in the impairment models, we updated the weightings with downside risk scenarios representing 40% probability (downside plus severe downside scenarios combined) from 50%. This change reflects the revised and less risky UK outlook for interest rates and inflation compared to December 2022.

Impairment losses were £60.1 million (2022: £47.7 million) reflecting a cost of risk of 51 bps, of which 28bps was due to loan write-offs (net of recoveries) (2022: 51 bps). This reflects loan book growth and changes in expected credit loss models driven by macroeconomic assumptions, but credit risk metrics whilst slightly elevated, remain within risk appetite with the arrears ratio at 2.3% (2022: 1.9%). We work closely with and are ready to support customers who face financial difficulties.

Conservative capital management and funding diversification provide options for future growth

We continue to optimise our capital resources whilst maintaining a robust and prudent risk appetite. Our Common Equity Tier 1 capital ratio increased to 12.9% (2022: 12.7%) and our total capital ratio to 16.4% (2022: 15.6%). The increase in the total capital ratio over the period is largely attributable to retained earnings and a successful issuance of a £90 million subordinated Tier 2 note under our newly launched Euro Medium Term Note Programme. Additionally, in the second half of the year, we collateralised our over-the-counter interest rate swaps held within our funding structured entities, as highlighted in our half year results and reduced our counterparty credit risk and credit valuation adjustment.

During 2023, the Counter Cyclical Capital buffer was increased by 1% to 2% and total regulatory capital requirements are now 13.57%. With total regulatory capital of £1,424.9 million, the Group remains comfortably above regulatory requirements and is well capitalised to support our customers, deliver our strategic priorities and absorb future changes to regulatory capital requirements as proposed through Basel 3.1.

The Group is not required to comply with the Prudential Regulation Authority (PRA) Leverage Ratio Framework, however the Group maintains its returns with prudent levels of leverage. The leverage ratio for the Group is 8.2% (2022: 8.8%), compared to minimum requirement of 3.25%. Risk-weighted assets at £8.7 billion, as a proportion of the loan book, is 65% (31 December 2022: 71%).

We continue to diversify our funding base, and remain predominantly funded by retail and SME customers. In a competitive market, our strong savings proposition continues to attract new customers with deposits growing 24.3% to £13.6 billion. Wholesale funding is primarily through the Bank of England's TFSME programme which remained stable, with drawn balances of £1.2 billion. During 2023, we also completed two further retained securitisations of £1.1 billion of property assets, providing further liquidity benefits to the Group. We maintained our prudent liquidity approach with the 12 month average liquidity coverage ratio (LCR) being 311% (2022: 290%), comfortably above the regulatory minimum.

Looking ahead

We continue to closely monitor the UK economy and macroeconomic environment to ensure that we can actively support our customers through these uncertain times. Over the years, we have repeatedly demonstrated that we can respond quickly to meet our customers' needs through innovative and pragmatic solutions, whilst maintaining our prudent risk appetite and the Group has a strong capital and liquidity base to continue doing so. We are confident in our ability to continue to meet the changing needs of our customers, colleagues and business partners in the future and continue the momentum with our focus on growth, efficiency and capital optimisation.

Dylan Minto
Chief Financial Officer

Business review
Enterprise franchise

SME markets

Our SME proposition supports established and fast-growth UK SMEs with innovative finance solutions to meet their often complex and event-driven needs. We operate across a diverse range of large, established and growing SME markets that we know well, offering strong business flows today and attractive growth potential for tomorrow. Our specialist segments are often underserved due to their highly bespoke structuring requirements and in-life relationship nature, creating an opportunity for us to deploy our broad range of customer focused and flexible solutions to SMEs across the UK.

Our markets and customers

1. Structured lending

Financial sponsors:

- **Unitranche** targets the private equity sponsor market to fund investment in established UK SMEs.
- **Venture debt** supports the further growth of early-stage venture capital-backed businesses.
- **Equity fund finance** offers net asset value lending to small and medium-sized private equity funds.
- **Recurring Revenue finance** supports near-profit, sponsor-backed SMEs with reliable, contracted revenue streams.

Speciality finance:

- **Wholesale finance** and **block discounting** provide committed and uncommitted lending to UK non-bank specialist lenders.
- **Debt fund finance** offers net asset value lending focused towards smaller/niche debt funds.

Development finance

Provides funding solutions to experienced property developers for the build or refurbishment of residential, semi-commercial and commercial property assets for sale or hold.

Corporate lending:

- **Commercial loans** are senior debt term loans targeting typically owner managed SMEs to support acquisitions, refinancing, management buy-outs and other areas of growth.
- **Asset based lending** leverages hard and paper assets to provide funding to mid-market SMEs, supporting needs including working capital, strategic investment and acquisition.

Specialist markets

Provides a range of funding options to both public and private regulated healthcare providers, including National Health Service (NHS) Trusts. We support a variety of specialisms across the sector, including care homes, pharmacies and specialist care providers, through both term debt and asset finance solutions.

2. Digital SME lending

Provides technology-enabled finance solutions to fast-growth SMEs in the form of asset finance and term lending products. Our proposition leverages digital to deliver automated and fast decisioning in a market where speed is essential.

Why customers choose us

- **Deep market expertise:** customers value being able to leverage our lending expertise and insights.
- **Extensive network:** strong relationships with UK wide key business introducers.
- **Broad range of bespoke facilities and highly flexible solutions to match the customers growth cycle:** underpinned by deep knowledge of the underlying asset classes.
- **Experienced structuring and portfolio management team:** combining 'always on' oversight with early and extensive support.
- **Digital application and fulfillment experience:** fast credit decisioning supporting slick customer journeys.

Business review
Enterprise franchise

2023 SME achievements

Exceptional customer franchise

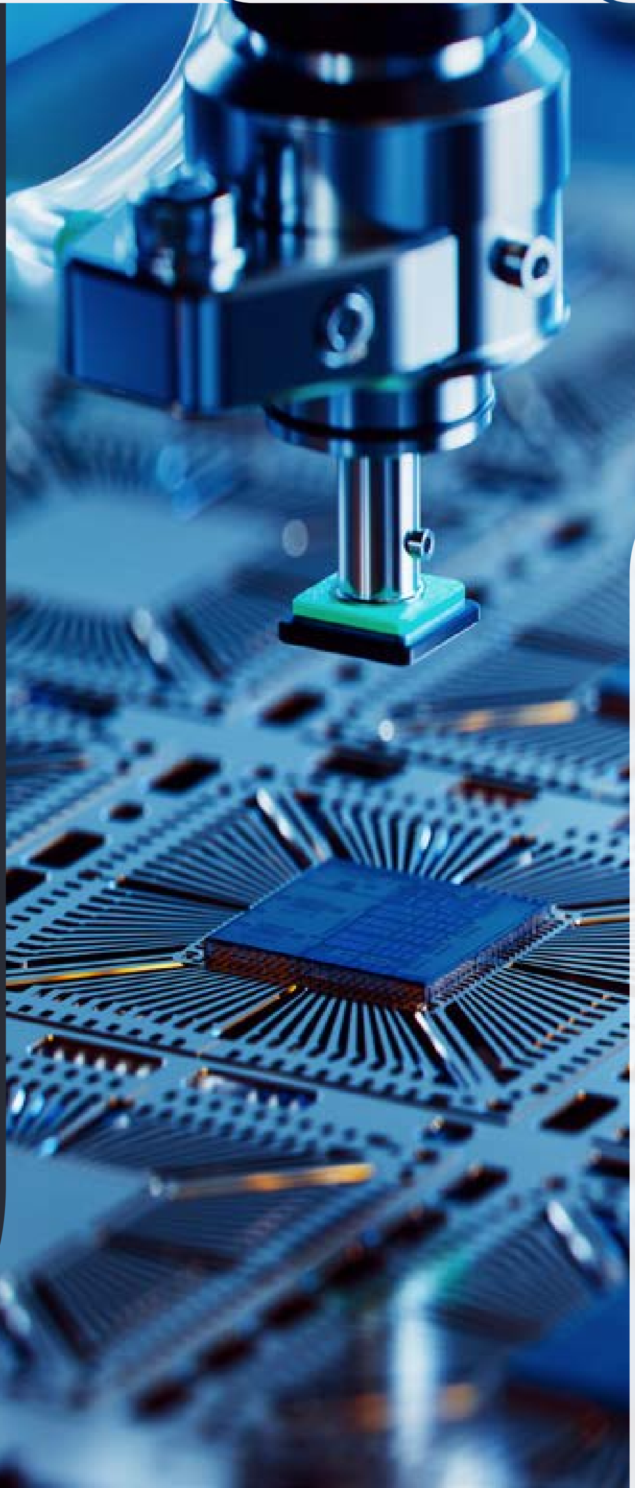
- ✓ **Evolved our Digital SME lending offering with the launch of a new capital expenditure term loan product,** expanding our offering to support businesses to finance technology expenditure. We also rolled out auto-decisioning capabilities to give customers more certainty with quicker decisions, helping to bring down funding times.
- ✓ **Launched a new recurring revenue product** in response to the growth in recurring and subscription-based revenue models across the software and technology space. This addition complements our existing offering and extends our support to high-growth sponsor-backed SMEs across their investment lifecycle.
- ✓ **Expanded our portfolio and distribution of development finance products** to allow us to reinvest in new schemes.

Innovative mindset driving growth

- ✓ **Introduced our new credit structuring team** to provide enhanced support to our origination teams.
- ✓ **Further strengthened our portfolio management function**, bringing all in-life management teams under a single Enterprise risk team to enhance shared learning, drive long-term partner value and efficient service delivery for our customers.
- ✓ **Invested in our front and middle-office teams**, focusing on key interactions in our customer journeys to align our operations more closely with evolving needs across our markets.

Robust and sustainable platform

- ✓ **Leveraged data analytics to enhance our Risk Management Frameworks.** We introduced new tools to improve early sight of trends and emerging risks and maintain the strong and robust management of our client portfolio.
- ✓ **Continued to enrich our data capabilities** to provide increased depth of analysis and insights across the portfolio.



Looking ahead

Against a challenging macroeconomic backdrop our SME proposition demonstrated resilience and continued to deliver growth throughout 2023. This was achieved despite lower levels of market activity in a number of our key segments, most notably mergers and acquisitions activity as SMEs and investors remained cautious of the changing market conditions. Looking ahead, we expect to see attractive growth opportunities across our markets, underpinned by their strong, long-term fundamentals. Structural housing undersupply, the need for bespoke and complex funding solutions, and a desire for fast, digital access to capital all mean that we remain well placed to support more SMEs with their growth ambitions.

We are investing to take advantage of these opportunities, leveraging our established origination and risk management foundations to go deeper into our product set and scale our proposition to cater for the needs of more businesses. We will continue to build on our established relationships and expand our offering to support existing clients through their growth lifecycle with additional funding. We will also invest more in both digital and talent to further disrupt digital lending markets and enhance our customer journeys, front office capacity and risk frameworks.

Business review
Enterprise franchise

Real Estate markets

Our Real Estate proposition supports professional property investors and experienced landlords with funding to grow and sustain their successful property businesses. We achieve this by offering a range of residential, commercial and short-term mortgage products through our specialist broker network that is deeply embedded in our customer markets. Our established and extensive distribution, alongside experienced underwriting teams enable us to originate a wide range of loan sizes and asset types, unlocking funding opportunities for customers. Our digital origination capabilities continue to provide fast and consistent initial decisions, offering competitive advantage in an intermediary-led market.

Our markets and customers

1. Buy-to-let

Mortgages for professional property investors and experienced landlords often already operating at scale or with the ambition to grow. Our products are primarily distributed through specialist brokers, earning premium margins by deploying our deep expertise to meet the more sophisticated needs and expectations of the professional borrowers we serve. We utilise our digital capabilities for seamless processing of more straightforward buy-to-let mortgage applications.

2. Commercial investment

Mortgages for professional property investors where the property is commercial or semi-commercial. Our customers are experienced investors seasoned in commercial property; developers retaining larger schemes for rental; or growing buy-to-let landlords seeking to diversify their portfolios.

3. Bridging

Short-term mortgages for professional property investors and landlords looking to swiftly acquire a property to increase its value or rental yield through refurbishment or conversion. Our offering caters to residential, commercial and semi-commercial properties. Our customers often retain completed properties for rental and we offer incremental value to them by being able to refinance them to a long-term mortgage once works are complete, avoiding the need to find a second lending partner.

Why customers choose us

- **Deep market expertise:** allows us to identify new opportunities by understanding and effectively managing risk at origination and throughout the loan life.
- **Advanced digital and data capabilities:** enable efficient delivery and rapid response to changing market conditions.
- **Bespoke range of solutions:** designed to meet the more sophisticated needs of professional investors.
- **Specialist credit underwriting:** a combination of digital capabilities for efficient straight-through processing of simple transactions and deep expertise for manual decisions on more complex cases.
- **Extensive intermediary network:** strong and long-standing relationships with key intermediaries.

Business review
Enterprise franchise

2023 Real Estate achievements

Exceptional customer franchise

- ✓ **Launched our Next Generation Underwriting Hub**, digitalising all aspects of the underwriting process. This investment has helped to evolve our digital buy-to-let product by streamlining mortgage processing times, resulting in significantly quicker flight times.
- ✓ **Introduced a dedicated large loans relationship team** to support our Real Estate customers and brokers.
- ✓ **Continually optimised our proposition**, throughout a more volatile trading year. Our constant focus on maximising opportunity, managing risk and delivering good customer outcomes underpinned our commitment to the market as a reliable funding partner.

Innovative mindset driving growth

- ✓ **Became the first UK bank to complete a limited company remortgage case on the PEXA platform.** Using automated valuation models to speed up the conveyancing journey, for example in January 2024, we completed a buy-to-let remortgage in only 37 working hours.
- ✓ **Invested in credit structuring expertise** to support the build of our bespoke in-life management service to our large loans proposition, creating the opportunity to extend our customer relationships.

Robust and sustainable platform

- ✓ **Launched a new risk tool,** to help provide enhanced insights into early warning indicators, while leveraging credit reference agency data to enable a better understanding of credit performance trends for facilities held outside of Shawbrook.
- ✓ **Integrated multiple services into our Next Generation Underwriting Hub**, including data from credit reference agencies and the UK House Price Index to help enhance underwriting decisions.

Looking ahead

The UK Real Estate market endured significant volatility as a result of rapidly rising interest rates, however our customers have proven resilient to date. As such we will continue to seek opportunities to support the market whilst maintaining a firm focus on our robust forward-looking risk framework, leveraging digital and data. As the professional Real Estate market continues to adjust to a new trading environment, we remain alert to attractive risk-adjusted opportunities in our specialist segments, while continuing to support the changing requirements of professional landlords as they transition through their growth journey.

Our sharp focus on the wider needs of professional landlords, either already operating at scale, or seeking to grow, provides us with a clear target customer to serve, we will continue to leverage data and digital to enhance automation and enable predictive actions, combined with deep human expertise to originate more complex loans and customers using our relationship-led premium service. Alongside originating attractive new business, we will focus on enhancing our customer retention offering, to maximise the lifetime value of our customer relationships.

Spotlight
The first UK bank to offer limited company remortgages with PEXA

First completion demonstrates the potential for faster and simpler remortgaging for professional property investors

Building on the development work in 2023, in January 2024 we became the first bank in the UK to offer limited companies the ability to remortgage using the digital conveyancing platform, PEXA.

Traditionally, property settlements involve a significant amount of paperwork and manual processes. We have streamlined this by partnering with PEXA to provide a digital platform for individuals and limited companies, where all parties involved in the property transaction can collaborate, exchange information, and settle the transaction electronically through the Bank of England via PEXA Pay.

We, alongside the customer's broker Clever Lending, completed our first limited company remortgage using PEXA for a professional property investor with an 11 property portfolio. Benefitting from automated valuation models and a fully packaged case, the whole process took only 28 business days from full mortgage application to completion.

Working with PEXA, our objective is to continue reducing the time and effort on administration and to minimise the frustrations that the traditional remortgaging process can create for investors and landlords.

"We've continued to build on our evolving digital strategy, adding to existing innovations such as MyShawbrook portal, which provides automated underwriting decisions.

Extending PEXA to limited companies is a further example of us delivering against our technology ambitions, removing the unnecessary friction of manual completion payments, which will now benefit more Shawbrook customers. We're glad that we are now able to further enhance user journeys and enable more property investors to benefit from a smoother, more efficient process, as demonstrated by this first completion for a limited company client."

Claire Rankin

Director of Specialist Lending – Real Estate

"We are delighted to continue our partnership with Shawbrook and roll-out the new limited company functionality of the PEXA platform. We know that property transactions are still too painful and take too long here in the UK and launching limited company capabilities is the next step on our journey to enabling a smart, seamless and secure experience for those buying, selling and remortgaging property.

We look forward to continuing to work with innovative partners such as Shawbrook to make this journey a reality."

Andrew Lloyd

UK Chief Customer Officer at PEXA

Business review
Consumer franchise

Consumer markets

Our consumer proposition supports UK consumers and micro business owners with a broad range of simple, flexible and transparent lending and savings products for multiple purposes. Our proposition is underpinned by a digital and scalable distribution model, leveraging valued relationships with key digital marketplaces and data-driven risk models.

Our markets and customers

1. Unsecured personal lending

Offers a simple and transparent unsecured lending proposition to UK consumers who are often underserved by the mainstream banks. Our fully digital and scalable distribution model enables us to adapt quickly to evolving customer needs and market conditions.

2. Motor finance

In 2023, we signed a committed platform lending facility with Blue Motor Finance Limited (BMFL), allowing us to prudently originate hire purchase agreements in the used car market through their established distribution network and digital proposition. Our customers are typically UK homeowners and tenants looking for finance to purchase a used vehicle.

3. Savings

We offer a diverse suite of ISA and non-ISA savings products aimed at both consumers and businesses, including easy access, notice and fixed term accounts. Our digital and scalable distribution model appeals to our customer base which is dominated by individuals who value the high quality product range and customer service we offer.

Why customers choose us

Lending:

- **Automated processes and data strategies:** driving efficient customer journeys and highly responsive to market dynamics.
- **Simple, transparent and digital-first proposition:** performs well in a market where simplicity and speed matters.
- **Extensive digital marketplace distribution:** enables us to establish our presence across a larger share of our chosen markets.

Savings:

- **Diverse suite of simple products:** helping to fulfil a range of savings requirements.
- **Broad partnership network:** supports diversity of funding and provides access to a larger share of the market.
- **Strong Shawbrook brand:** recognised for quality of product range and service, supporting attractive deposit flows.

Business review
Consumer franchise

2023 Consumer achievements

	Lending	Savings
Exceptional customer franchise	✓ **Implemented the Financial Conduct Authority's (FCA) Consumer Duty**, ensuring our culture and governance framework continues to encourage good customer outcomes and provides fair value. ✓ **Created a dedicated customer experience forum** to monitor and collect valuable insights used to shape our proposition and drive continuous improvements for our customers. ✓ **Deployed a dedicated customer bereavement team**, helping us to provide an easy and empathetic experience for customers dealing with bereavement.	
Innovative mindset driving growth	✓ **Entered the motor finance market** through a platform lending agreement with BMFL. The agreement provides BMFL with a committed platform lending facility to help customers finance hire purchase agreements for used cars. ✓ **Transitioned to a new workflow** tool to help facilitate the automation of manual tasks and streamline processes, enhancing the colleague and customer experience.	✓ **Expanded the reach of our savings partnerships** to further diversify funding and uphold our commitment to our target market. ✓ **Leveraged predictive analytics to inform pricing decisions**, empowering the team to refine strategies by proactively adjusting interest rates and enhancing overall retention.
Robust and sustainable platform	✓ **Implemented a new real-time digital decisioning tool** utilising wider data sources to enable more dynamic market decisioning. ✓ **Used new data sources to optimise our credit scoring, affordability, policy rules and KYC/AML processes,** while embedding new data quality controls across the business.	✓ **Continued to build out our new digital savings experience**, including the introduction of a maturity carousel, enabling Savings customers to view our suite of available products and self-serve online. ✓ **Automated our ISA e-transfer process** by eliminating unnecessary manual interventions, helping to improve process efficiency, resulting in faster customer journeys.

Looking ahead

During 2023, prevailing macroeconomic conditions continued to exert strain on consumers' income and discretionary spending. Looking ahead to 2024 we remain alert to these pressures and will adjust the rate of growth within our consumer lending portfolio accordingly. This agility is enabled by the strength of our fully digital proposition and sophisticated digital-first distribution model.

We will also fully implement our new digital savings experience, offering customers the ability to self-serve throughout the life cycle of their product, while expanding our data and analytics capabilities.

Business review
Retail Mortgage Brands

Retail Mortgage Brands markets

Our Retail Mortgage Brands, which are comprised of the Group's subsidiary entities TML and BML, provide buy-to-let and owner-occupied mortgages to individuals and property professionals across the UK. Our multi-brand proposition complements our core Real Estate offering and enables us to serve the needs of a wide spectrum of customers, including those with complex income and complex credit profiles that are often underserved by the mainstream mortgage market. Products are distributed through FCA authorised mortgage intermediaries including specialist brokers within our target markets.

Our markets and customers

1. Buy-to-let

The Mortgage Lender – real life lending

Provides buy-to-let mortgages to support landlords that own property in either personal or multiple occupation/multi-unit blocks, as well as holiday lets and expatriate scenarios.

2. Owner-occupied mortgages

The Mortgage Lender – real life lending

Bluestone. mortgages

Provides owner-occupied mortgages to support customers either looking to purchase their first property, move home or remortgage. Our customers typically have complex income and credit profiles, including the self-employed, as well as those that continue to be penalised for historical financial challenges.

Why customers choose us

- **Data-led decisioning, combined with human expertise:** providing speed in a typically slow market.
- **Extensive intermediary network:** deep relationships and solid credibility, offering nationwide distribution and coverage.
- **Digital strategy:** digital proposition delivered through data-driven CRM capabilities.
- **Inclusive eligibility criteria:** comprehensive offering to cater for underserved needs.

Business review
Retail Mortgage Brands

2023 Retail Mortgage Brands achievements

	TML	BML
Exceptional customer franchise	✓ **Introduced a digital product transfer solution** to support customers who are either on TML or BML's reversion rate or approaching the end of their fixed rate period.	
	✓ **Enhanced our customer relationship management ecosystems**, with further automated journeys implemented and integrations into our origination and broker sourcing platforms.	✓ **Introduced auto-decisioning capabilities** across the customer application process, helping to streamline the customer journey and increase operational efficiency.
	✓ **Enhanced our owner-occupied product range** to support changing customer needs and our evolving ESG strategy.	✓ **Trustpilot score increased to 4.8**, the highest score of any specialist mortgage lender.
Innovative mindset driving growth	✓ **Designed our Customer First Framework**, supported by the recruitment of a Head of In Life Customer Experience role to drive our customer first agenda.	✓ **Launched the Deposit Unlock Scheme** in January 2024, becoming the first specialist mortgage lender to offer the solution to support first-time buyers onto the property ladder, backed by an insurance policy to protect against losses.
	✓ **Evolved our pricing elasticity model** to accurately inform competitive position and profitability.	✓ **Significantly invested in our sales talent**, growing the team by c.50% to support our growth ambitions.
Robust and sustainable platform	✓ **Implementation of the Group's new AI powered customer contact platform**, supporting the long-term integration into Group information technology infrastructure.	
	✓ **Upgraded our broker portal** to deliver bespoke underwriting requirements relevant to individual customer needs.	✓ **Introduced a new lending platform** introducing increased automation and operational efficiency through Application Programming Interfaces and Open Banking.

Looking ahead

Our Retail Mortgage Brands proposition remained in high demand during 2023, with our reputation and strong digital capabilities supporting continued growth. Looking ahead, the overall mortgage market is expected to contract in 2024, however, strong demand is expected to remain in the specialist residential mortgage market, driven by an increasing number of people being excluded from high street lending due to their complex income profiles, such as the self-employed or those with multiple income streams.

To cater for these shifting dynamics while upholding the quality of our loan book, we will continue to leverage and invest in our data capabilities to gain valuable insights into our portfolio while improving the customer experience and speed of offers. We also see significant opportunity to extend our proposition into adjacent markets to support the underserved segments, while strengthening our existing relationships using our digital product transfer capabilities.

Environmental, Social and Governance (ESG) Report

Our ESG strategy is a tangible expression of our purpose, and is designed to create sustainable value for our customers, colleagues, communities, suppliers and Shareholder, while having a positive impact on society and the wider environment. Over the last 12 months we have continued to grow and evolve our specialist finance propositions, helping more customers to achieve their goals. We also continued to invest in our people and communities, helping us to deepen our impact.

We continue to take action to ensure our approach to sustainability is embedded across all areas of our business and a core part of our wider strategy. This report provides an insight into the progress we have made across all aspects of our ESG strategy over the last year.

"Delivering long-term sustainable value for all of our stakeholders remains a strategic priority and, as such, the Board remains committed to embedding sustainability across the organisation. Our ESG strategy presents us with significant opportunities to make a difference. From playing our part in addressing the climate challenge, developing new homes to help mitigate the chronic housing shortage in the UK, to continuing to give back to the communities in which we operate through various programmes, we are committed to making a positive impact."

John Callender
Chairman

We have a clear ambition and defined strategic pillars across each of the Environment, Social and Governance segments, focused on those areas where we believe we can make the greatest impact.

Environment	Social	Governance
We want to play our part in enabling a just transition[1] to net zero in the UK by leveraging our insights and expertise.	We want to boost social mobility, champion equality and diversity and create an inclusive environment by leveraging our capabilities, networks and people.	We are committed to operating under a robust governance framework which underpins our purpose and serves all our stakeholders.
We will do this by…		
1. Supporting the climate transition. 2. Reducing our climate impact. 3. Embedding climate into our corporate DNA.	1. Supporting customers with specialist finance. 2. Attracting and retaining the best talent. 3. Giving back to our communities.	1. Having effective Board and management structures. 2. Maintaining robust governance and data-driven, forward-looking risk management. 3. Committing to transparent and accountable disclosures.
2023 highlights		
• Provided £475 million of sustainable finance[2]. • Completed an initial internal measurement of our SME financed emissions. • Enhanced data quality for our financed and operational emissions.	• Donated over £200,000 to multiple charitable causes. • Launched Go Forward, a new social mobility programme with Saracens High School. • Launched tools including our new Leadership Framework to support employee development.	• Evolved our Sustainable Finance Framework, including incorporation of socially-focused lending criteria. • Delivered climate training to employees. • Enhanced our ESG governance framework.
Our short-term focus		
• Continue to develop our net zero roadmap including TPT[3]-aligned transition plans. • Further enhance our carbon footprint data quality and coverage. • Collaborate with partners to support the delivery of our climate ambition.	• Continue to improve diversity metrics across our focus areas. • Increase employee engagement in community and giving activities. • Collaborate with partners to develop our social impact programmes.	• Horizon-scanning and impact assessment of ESG-related emerging regulation to enhance our disclosures. • Continue to deploy climate and ESG employee training. • Ongoing embedding of climate risk to manage physical and transition risk. • Continue to track ESG metrics in bonus design scheme.

Our ESG strategy is aligned to eight of the United Nations Sustainable Development Goals (SDGs), where we believe we can have the most impact and positively contribute.

Our 2023 Climate Report, included on pages 152 to 178 has been prepared in order to comply with the non-financial and sustainability-related requirements of the Companies Act 2006. The report is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) 2017 recommendations and 2021 Annex[4] across all four TCFD pillars.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

1 We use the term 'just transition' to describe applying a social lens to opportunities and risk arising from the climate transition, with the interests of employees, communities and customers in mind, to ensure it is fair and inclusive for all actors in society.

2 Lending classified as sustainable finance/socially-focused lending is based on our internal sustainable finance framework which has been developed using best practice and industry guidance including but not limited to Loans Market Association, International Capital Markets Association and EU Taxonomy. See page 43 for further information.

3 Transition Plan Taskforce (TPT) was launched by HM Treasury in April 2022 to develop the gold standard for private sector climate transition plans. The TPT has developed a sector neutral Disclosure Framework for best-practice transition plan disclosures, alongside implementation guidance and sector guidance. The Disclosure Framework draws on the components identified by The Glasgow Financial Alliance for Net Zero of a good transition plan, ensuring the outputs of both initiatives lock together to form an integrated approach to transition planning.

4 The 2021 TCFD Annex provides both general and sector-specific guidance on implementing the Task Force's disclosure recommendations. Updates reflect the evolution of disclosure practices, approaches and user needs.

Our 2023 ESG highlights

E

42.1%
of our buy-to-let book is rated EPC C or above[1]

46.9%
of our owner-occupied book is rated EPC C or above[2]

E

£475 million
of sustainable finance originations[3]

S

84%
employee engagement score

S

29%
of vacancies filled by internal applicants

S

>£200,000
donated to multiple charitable causes

S

23
young people joined our emerging talent programmes

E G

100%
of employees completed climate training[4]

E G

53%
of our suppliers are net zero aligned[5]

G

>100
employees utilised our new mentoring platform

G

40%
of our Board members are female

Key

- E Environment
- S Social
- G Governance

1 % of known EPC ratings in the Group's buy-to-let portfolio as at 30 November 2023. This covers 66% of this portfolio.
2 % of known EPC ratings in the Group's owner-occupied portfolio as at 30 November 2023. This covers 82% of this portfolio.
3 Lending that aligns to the environmental criteria within our Sustainable Finance Framework.
4 Training was rolled out to all Shawbrook Bank Limited and TML employees in 2023 with a 100% completion rate. This training was rolled out to BML in 2024.
5 % of suppliers, with spend over £200k, that either have a net zero target for their own operations or have aligned to the Science Based Targets initiative (SBTi) approach for net zero.

Environment

Our approach to addressing the climate challenge

We recognise the importance and urgency of tackling climate change to mitigate against the significant impact on us as an organisation and wider society. Supporting the climate transition forms a core part of our ESG agenda, with our climate strategy designed to ensure we play our part in protecting the environment as well as supporting the 2015 Paris Agreement goals. Our ambition is to reduce our climate impact and become a net zero[1] organisation by 2050[2] and by 2035[3] for our own operations.

"During 2023, we continued to evolve our data-driven approach to climate risk. By leveraging climate insights across the portfolio, we are able to better identify and manage the risks associated with climate change."

Hugh Fitzpatrick,
Chief Risk Officer

We are members of

UK GBC | Tech Zero

42.1% of our buy-to-let book is rated EPC C or above

46.9% of our owner-occupied book is rated EPC C or above

£475 million of sustainable finance originations

53% of our suppliers are net zero aligned

1 We use the term 'net zero' to describe a reduction in GHG emissions coupled with carbon removal (e.g. carbon capture through nature-based solutions or technology) for residual emissions.

2 Covers own operations (scopes 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios (as defined on page 174 of the Climate Report) and SME portfolios.

3 Covers Scope 1, Scope 2 and Scope 3 (fuel and energy-related activities, waste, business travel, commuting and work from home) emissions. This excludes purchased goods and services and financed emissions.

"Climate change won't wait for policy changes. Landlords with modern, energy-efficient stock will not only attract tenants and reduce voids, but also be prepared for the inevitable shift towards a greener future."

Emma Cox
Managing Director of Real Estate

Spotlight
Research reinforces UK landlords' commitment to energy-efficient homes

While the 2025 Energy Performance Certificates (EPC) regulation deadline may have shifted, the drive towards energy-efficient homes remains a cornerstone of the UK's net zero ambitions. At Shawbrook, we see this as an opportunity to support a just transition in the rental sector. Our research in August 2023, conducted with over 1,000 UK landlords, revealed that 80% of landlords were already prepared for the initial deadline, with nearly half investing significantly in property improvements. This proactive approach demonstrates a commitment to sustainability, tenant wellbeing and long-term resilience. However, our research highlighted concerns about cost and labour which reinforces the need for targeted support to ensure the transition does not disproportionately burden landlords or leave tenants facing rent hikes due to renovation costs.

We remain committed to supporting landlords throughout this journey, using our specialist financing solutions including our EPC mortgage discount product and expert guidance. We want to ensure a balanced transition towards a sustainable rental housing market, benefiting both landlords and tenants alike.

Spotlight
Increasing SME sustainability engagement

In 2023, we engaged c.50 of our SME customers on their net zero transition to help understand their approach and guide our strategy and ways that we can help to facilitate positive change. We received a positive response, and high levels of engagement from our customers, helping to identify key focus areas. We plan to continue to increase engagement throughout 2024, and will look for additional ways to play our role in the SME transition.

Climate Report: summary

Our Climate Report can be found on pages 152 to 178 and provides further insights into our strategy and progress made during the year.

Strategy

- Our strategy recognises various short, medium and long-term climate-related risks and opportunities. We have outlined our current and future mitigating actions to embed climate into our corporate DNA, and support our customers in their transition to net zero.
- We have made progress against our net zero ambitions. This includes providing £475 million of sustainable financing through our existing lending products.
- We continued to align our financial planning process with the outputs from the quantitative scenario analysis relating to climate. We continue to invest in data and technology, which have become a key enabler for our climate strategy.
- We completed our second annual quantitative assessment of the climate-related scenarios to test the resilience of our strategy over a three to five year period.

Governance

- The Board continued to monitor the Group's progress against the agreed climate strategy. This included spotlight sessions on progress against key metrics and climate data, as well as an update on our evolved Sustainable Finance Framework.
- In January 2024, the Board received externally facilitated training to enhance their climate-related skills and knowledge.
- The ESG Sub-Committee, and other climate-related working groups, have continued to oversee and develop our climate strategy.
- Mandatory climate training was rolled out to all employees to build foundational knowledge on climate to support with our embedding ambitions.

Risk management

- Climate risk has been designated as a principal risk in our risk taxonomy to further promote embedding.
- We identify and assess climate-related risks through six stages: identification, measurement, management, monitoring, reporting and challenge.
- We manage climate risks through the selection of one of four strategies: accept, avoid, transfer and mitigate. The selection of the strategy will determine our business decision.
- We continue to utilise data insights to understand physical and transition risk for our loan book.
- Our climate risk appetite is approved by the Board and includes qualitative statements and quantitative triggers and limits.
- We completed our 2023 Internal Capital Adequacy Assessment Process (ICAAP) exercise, demonstrating enhanced scenario capabilities.

Metrics and targets

- We have climate-related metrics in place across our operations, supply chain, financed emissions and sustainable financing. These are monitored with annual reporting to the Board.
- In 2023, we measured our Scope 1, Scope 2 and relevant Scope 3 emissions related to our own operations. During the year, we also enhanced our methodology and data quality. Our full streamlined energy and carbon reporting (SECR) report can be found on page 28.
- We have continued to reduce our financed emissions intensity from our 2021 baseline for both our Residential Properties and Commercial Properties Portfolios[1]. The main driver has been higher rated EPC properties within our new originations, improving the overall EPC mix for both portfolios.
- We continue to have climate-related targets in place. These include our 2035 and 2050 net zero ambitions for our own operations and organisation respectively.
- We have recently updated our short-term (end of 2025) targets relating to sustainable finance originations and net zero aligned suppliers.

1 Each as defined on page 174 of the Climate Report.

Our carbon footprint: operational emissions

In 2023, our total operational carbon footprint was calculated to be 11,865 tonnes of carbon dioxide equivalent (tCO2e), which includes emissions from purchased goods and services.

Streamlined energy and carbon reporting (SECR)

Reporting period: 1st January 2023 – 31st December 2023

		2023	2022[1]
Energy	Total energy use for Scope 1 & 2 emissions (kWh)	823,811	708,389
Emissions (tCO2e)	Emissions from heating and own transport (Scope 1)	2.6	3.2
	Emissions from the use of purchased electricity: Location-based[2] (Scope 2)	167.7	133.6
	Emissions from the use of purchased electricity: Market-based[3] (Scope 2)	48.6	133.6
	Total emissions (Scope 1 & 2)[4]	**170.3**	**136.8**
	Scope 3 Category 1: (Purchased goods and services)	10,565.8	11,224.5
	Scope 3: Category 3 (Fuel-and energy-related activities)	53.3	47.0
	Scope 3: Category 5 (Waste)	12.1	9.6
	Scope 3: Category 6 (Business travel)	559.6	346.0
	Scope 3: Category 7 (Employee commuting)	504.2	563.9
	Total Scope 3 emissions	**11,695.0**	**12,191.0**
	Total Scope 1, 2 & 3 emissions	**11,865.3**	**12,327.8**
Intensity	Scope 1 & 2 emissions (kgCO2e) per full time equivalent (FTE)	113.0	110.9
	Change from previous year	1.86%	

1 The Group's 2022 figures have been restated as a result of changes in methodology and improvements in data quality resulting in more accurate information.
2 The location-based approach reflects average emissions for electricity supplied through the UK grid. This is based on figures published by the UK Government.
3 The market-based approach reflects the emissions from the electricity that the Group has purchased and derives emission factors from contractual agreements.
4 Location-based approach is used to measure our total scope 1 and scope 2 emissions.
5 This includes Shawbrook Bank Limited, BML and TML, covering 10 office locations and those working remotely with a total of 1,507.5 FTE as at 31 December 2023.
6 The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Our greenhouse gas (GHG) reporting follows the GHG Protocol, specifically under the operational control approach, for all facilities owned by the Group[5], reported in tCO2e. This is in line with our obligations under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the SECR regulation[6]. Our reporting year is from 1 January 2023 through to 31 December 2023.

Methodology

All GHG calculations were performed using the 2023 Department for Environment, Food & Rural Affairs (DEFRA) emission factors, other than spend-based calculations and working from home emissions (which falls under employee commuting). We used Exiobase 3.8.2 for all spend-based calculations. Exiobase is a Multi-Regional Environmentally Extended Input-Output Table, a global multi-regional input-output (MRIO) application. We used UK specific MRIO emission factors for our measurement. International Energy Agency (IEA) 2022 emission factors were used to cover working from home emissions. The data used was based on operational data gathered and prepared internally with emissions calculated utilising a climate management and accounting platform.

Comparison to 2022 SECR

Emissions associated with energy consumption (Scope 1 and Scope 2) increased due to the BML acquisition, adding two offices to our premises portfolio. Without the BML acquisition, these emissions would have remained broadly flat year-on-year. Total Scope 3 emissions excluding purchased goods and services also increased. This is attributable to employees returning to offices and work-related travel for in-person meetings following the impact of COVID-19 in previous years, as well as growth in headcount.

We continued to improve our data quality and coverage for Scope 3 (Category 1) purchased goods and services through obtaining direct emissions data from our suppliers which resulted in a decrease in emissions. This accounted for 39% of supplier spend in 2023 (2022: 33%), increasing measurement accuracy and reducing reliance on the spend-based method.

Energy efficiency measures

Throughout 2023, we took actions to reduce energy consumption and use energy more efficiently in our sites. Key highlights include:

- Consolidating our Brentwood estate from two offices to one.
- All of our sites, except one, that we have operational control over are on renewables tariffs.
- Continuing to work with landlords to identify and implement energy-saving opportunities, improving the energy efficiency of our offices.

In 2024, we will continue to focus on reducing our emissions and increasing our energy efficiency. This includes moving our London offices to 40 Leadenhall Street, a building on track to achieve a Building Research Establishment's Environmental Assessment Method (BREEAM) 'Excellent' and National Australian Built Environment Rating System (NABERS) 5* rating, signifying best practice in building operational energy performance.

Social

Through the products and services we provide, as well as the partnerships, communities and colleague initiatives we support, our ambition is to boost social mobility and champion equality and diversity.

Nurturing and protecting an inclusive environment within Shawbrook ensures we have the perspectives, experiences and capabilities required to maximise our impact.

Key highlights

84%
employee engagement score

23
young people joined our emerging talent programmes

87%
participation rate in our latest engagement survey

>£200,000
donated to multiple charitable causes

29%
of vacancies filled by internal applicants

>100
employees utilised our new mentoring platform

Our customers: building an exceptional customer franchise

Socially focused lending

We provide specialist finance solutions to segments often underserved by mainstream lenders. We are active in a number of markets that can deliver a positive impact on society:

- In SME, our speciality finance proposition provides wholesale funding facilities and services to non-bank lenders across a range of sectors and asset classes including Community Development Finance Institutions and the healthcare sector. During 2023, the Community Development Finance Institutions we worked with supported individuals with guidance, signposting or loans, replacing high-cost credit with fairer and more affordable finance.
- Our Retail Mortgage Brands provide mortgages to first time borrowers and those with complex incomes to help them to buy their own homes, often to customers who may otherwise have been locked out of the traditional mortgage market.

During 2023, we also developed our Sustainable Finance Framework to provide clear and transparent definitions for financing that creates a positive social outcome. The framework outlines the conditions and thresholds required for the financing to be considered as social-related. More information can be found on page 43.

"This is a great example of a solid working relationship. The introducing broker's professional and speedy work, plus the knowledge and experience of our TFC employees and TML's product and speed of decision all came together to produce a positive outcome, in double-quick time. By working together, broker, specialist distributor and lender will always provide better client solutions and outcomes."

Ian Balfour

Sales and Marketing Director at TFC Homeloans

Spotlight

Great working relationship delivering a quick turnaround for complex first-time buyer case

A challenging first-time buyer case TML recently handled with specialist distributor TFC Homeloans shows how a great relationship can pay dividends for everyone involved. The customer was looking to buy their first home with a loan of £100,000 but, as a self-employed applicant, plus reliance on a gifted deposit to part fund the purchase, options from high-street lenders were limited.

As a result of the long-standing relationship built with TFC Homeloans over the years, they knew just what they needed to provide to get a clear, fair and speedy decision. With all necessary documents uploaded at application stage, TML was able to progress the case in just eight days, offering the customer a 70% loan-to-value mortgage fixed for five years, satisfying their requirements at a competitive interest rate.

"We're delighted we've been able to prove our expertise in dealing with a complex first-time buyer case. We have a long-standing relationship with TFC Homeloans which helped to ensure that the process moved along smoothly and at speed. Our extensive experience working with complex cases combined with a clear understanding of what our underwriters need to progress an application, meant we were able to move this application to offer quickly."

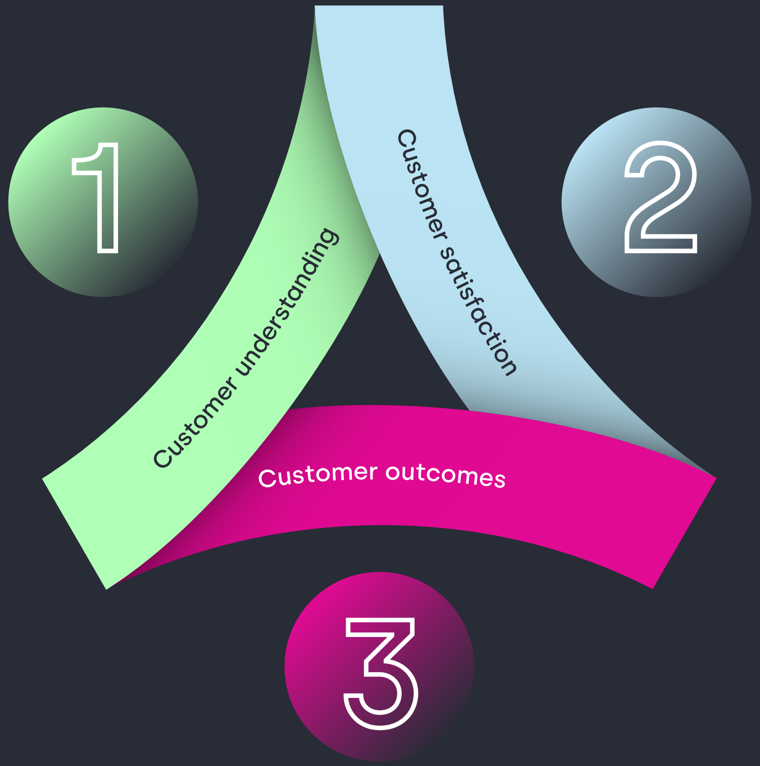
Chris Kirby

Head of Key Accounts and Specialist Distribution at TML

Listening to our customers

Customer insight and experience

Understanding and interpreting our customer data, behaviours and feedback is crucial to informing our strategy, delivering exceptional customer experiences and our ability to scale our operations effectively.



Customer understanding

Embedding a detailed understanding of our customers, their needs and expectations within the organisation ensures we remain connected to those we serve. Customer segmentation and persona creation helps us to identify opportunity through emerging or growing segments of customers, as well as using the findings to inform our strategy and shape our customer propositions to better serve their needs.

Customer satisfaction

We have established and maintain a rich understanding of the customer experience through our Voice of the Customer programme. A consistent methodology is applied to our Group-wide programme, gathering both qualitative and quantitative data points.

Providing an excellent service to our customers is our priority, but we recognise that things don't always go to plan. When this happens, we strive to resolve issues promptly and effectively, seeking fair resolutions that address the root cause. By analysing the drivers of complaints, we can leverage relevant insight to continuously improve our customer experience.

Customer outcomes

Delivering actionable insight is fundamental to the success of our Voice of the Customer programme. Customer insights are disseminated throughout the business via franchise-level customer experience forums, to feed the ongoing customer experience roadmap of initiatives that will improve customer outcomes and their experience with us.

Our people: Attracting and retaining the best talent

Digital driving an agile culture

Our culture is built on three principles: practical, personal and creative, which we believe best characterise the experience of both working with and within Shawbrook. These principles, developed in consultation with our people, are intended to both shape the way in which we work, as well as define how we wish to be perceived and experienced by our stakeholders.

As we have continued to scale, we are proud to have maintained our entrepreneurial and innovative culture. Our digital strategy is enabled by a modern organisational model, supported by our product, delivery and engineering capabilities. Informed by ways of working, our digital, product and data teams have now become a vehicle for embedding an agile culture across the organisation.

We continued to grow and evolve our workforce during the year, welcoming new talent to help drive our strategy. This was demonstrated through our increased investment in digital, with c.29% year on year growth across our Technology and Product functions.

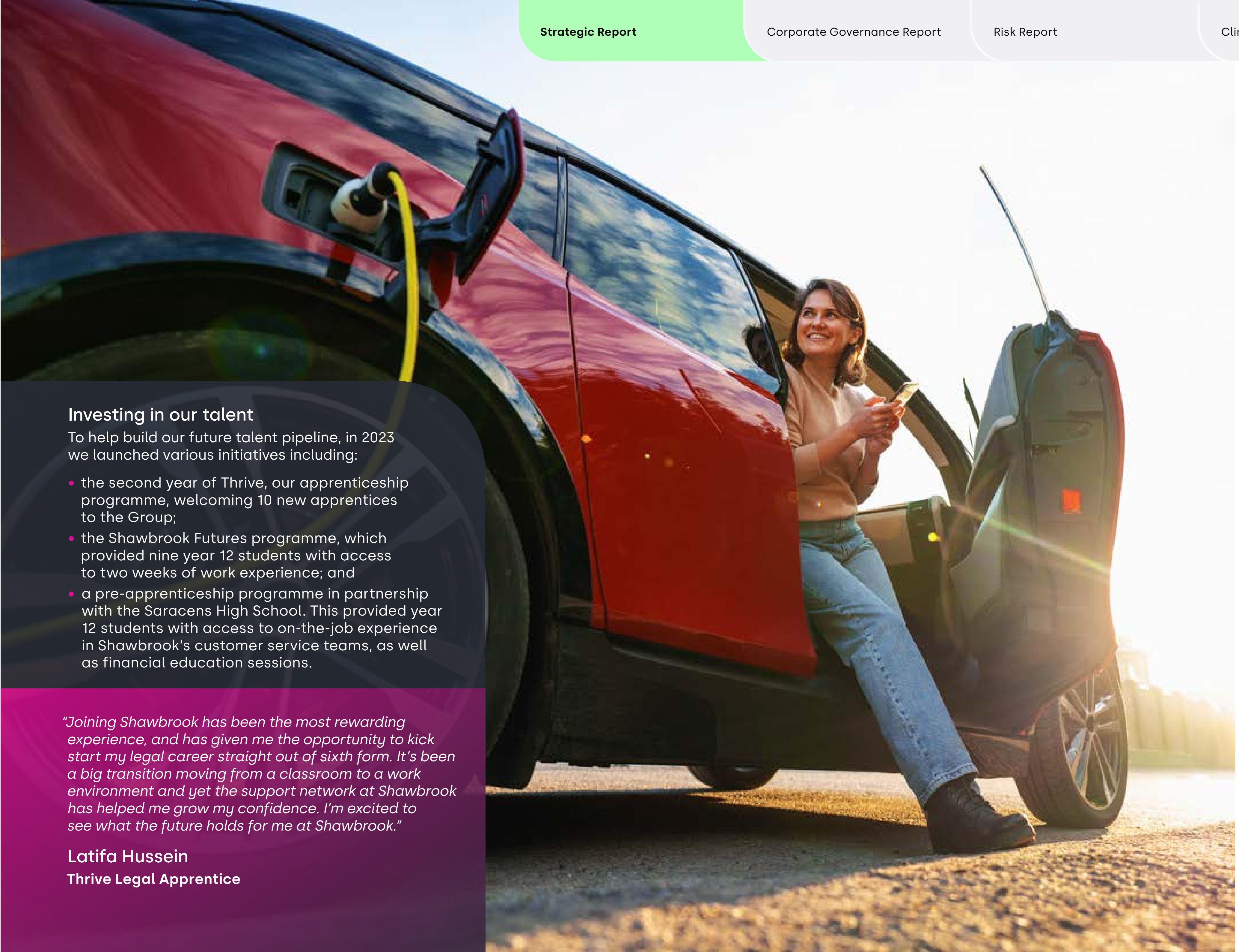
Supporting and listening to our people

We promote a culture where open and honest dialogue is encouraged and employee sentiment is continuously monitored through a range of feedback tools. These include formal surveys, our People Engagement Forum, all-employee question and answer sessions and informal team town halls. Further information on engagement with our employees can be found in our S172 statement on page 44.

In our November 2023 employee survey, our engagement score increased to 84% (2022: 82%), highlighting continued strong levels of engagement across the organisation.

"Our expert people sit at the heart of our 'best of both' approach, combining technology with the ingenuity of our teams to deliver value for our stakeholders. Our success is underpinned by an engaged workforce that continues to grow in scale, experience and reputation. Optimisation of our talent is enabling us to maximise business outcomes and build a resilient and forward-thinking organisation."

Debbie Griffin
Chief People and Marketing Officer



Investing in our talent

To help build our future talent pipeline, in 2023 we launched various initiatives including:

- the second year of Thrive, our apprenticeship programme, welcoming 10 new apprentices to the Group;
- the Shawbrook Futures programme, which provided nine year 12 students with access to two weeks of work experience; and
- a pre-apprenticeship programme in partnership with the Saracens High School. This provided year 12 students with access to on-the-job experience in Shawbrook's customer service teams, as well as financial education sessions.

"Joining Shawbrook has been the most rewarding experience, and has given me the opportunity to kick start my legal career straight out of sixth form. It's been a big transition moving from a classroom to a work environment and yet the support network at Shawbrook has helped me grow my confidence. I'm excited to see what the future holds for me at Shawbrook."

Latifa Hussein
Thrive Legal Apprentice

During 2023, we also invested in the development of our future leader and emerging talent pools, including the introduction of a Leadership Framework. Developed by the Executive Committee, this Framework articulates the key characteristics of a Shawbrook leader. Tailored to the Shawbrook culture and expectations, the Framework has enabled us to work with our future leaders to identify their key strengths and development areas. Our recently launched suite of leadership tools, including coaching and mentoring platforms, are then designed to support and develop these skills further.

We continually review and evolve our people initiatives to ensure that Shawbrook is a place that attracts, develops and retains the best talent. To support our employees with their physical and mental wellbeing, we offer a range of non-financial benefits including mental health first aiders and an employee assistance programme. During 2023, we improved our employee benefit programme and introduced additional benefits including an employee electric vehicle scheme and our online e-learning portal which offers a range of helpful courses, including those to support employee health and wellbeing.

"I just had my second coaching session. It was brilliant. Highly recommend it! Great to see the business investing in us all in this way."

Paul Asare-Archer
Chief Compliance Officer and MLRO

Equality, diversity and inclusion (EDI)

At Shawbrook we recognise that acknowledging the strengths and valuing the differences of others will contribute to a successful and thriving workplace. We are therefore committed to creating a diverse working environment, where all our people feel included and can make the most of the opportunities available to them.

Over the past 12 months, we have made good progress against our EDI agenda. Our priority has been to further embed our EDI strategy across our four key focus areas, while also building a culture of trust and belonging. We ask all new employees to record their EDI data when they join the Group and encourage existing employees to keep this updated. We regularly capture and review employee data (aggregated and anonymised) to help us understand our employee demographics better, including gender, ethnicity and socio-economic diversity, progression, turnover and felt experience. This helps us identify key areas of focus and align our efforts appropriately to ensure we deliver our EDI strategy.

Our employees scored us 87% in our latest employee engagement survey in response to the statement 'I'm satisfied with Shawbrook's effort to support diversity & inclusion'.

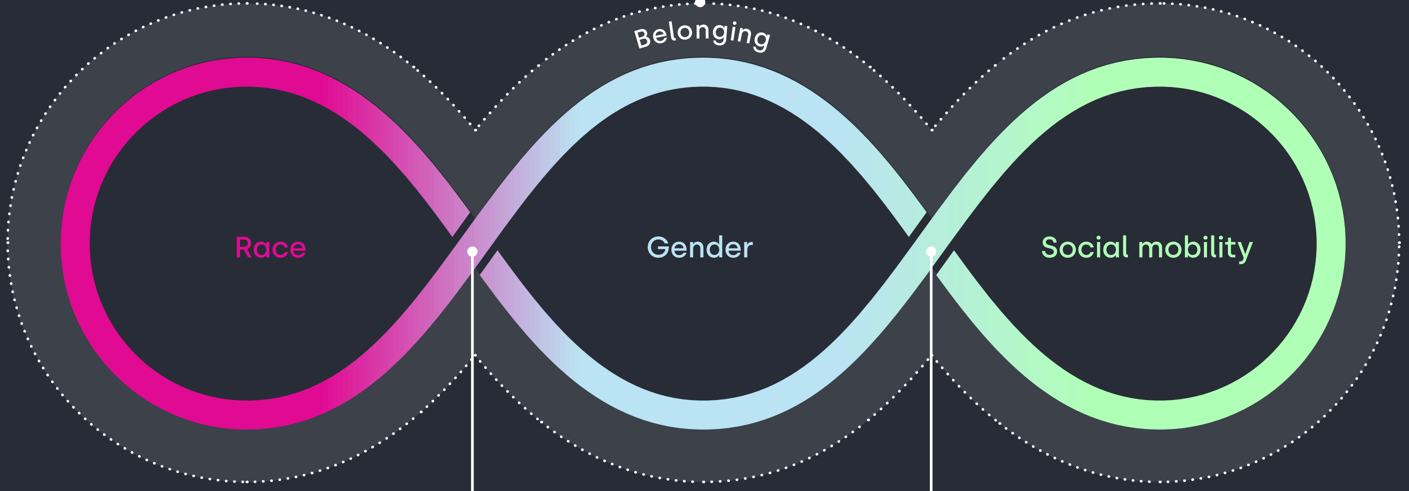
In 2024 we will continue to evolve our approach to EDI and create a culture of trust and belonging, ensuring our governance, measures and reporting evolve with anticipated upcoming regulatory changes.

"I set up the Neurodiversity community at Shawbrook at the beginning of 2023. As a parent of neurodiverse children, and having worked with neurodiverse colleagues, it's important for us to recognise the value and skills that neurodiverse people can bring to Shawbrook, as long as there is the right support and adjustments in place. Feedback has been consistently positive, with some colleagues now feeling more comfortable to disclose their own neurodiversity within their teams and ask for the support they need. I'm proud that Shawbrook has been so supportive of this community, and am looking forward to developing our network further."

Kate Marechal
Group Director of Operational Risk and Monitoring

2023 highlights

- Mandatory unconscious bias e-learning rolled out to all employees.
- Launched training for all leaders on creating a culture of trust and belonging at work.
- Launched a number of new employee led groups including those focused on neurodiversity, family, women in tech and dementia.



- Shared employee stories, such as those relating to Ramadan, Pride, Black History Month and Diwali.
- Hosted multiple employee events on important topics such as belonging, men as allies and neurodiversity.

- Became a member of Progress Together, a government commissioned taskforce which supports UK financial services employers to share best practice and boost collective efforts.
- Enhanced our paternity leave policy, including doubling the paid allowance.

Gender pay gap

We have committed to external diversity charters including HM Treasury's Women in Finance Charter and the Business in the Community Race at Work Charter, aimed at supporting industry and social change in these under-represented groups. Under the Women in Finance Charter, we have committed to having 30% of females at Senior Management level by September 2024[1], currently at 29.5% as at the end of 2023 (2022: 27.3%).

We also continue to monitor our gender pay gap[1]. Our 2023 outcomes remain broadly consistent with the prior year, influenced by the proportionately higher number of males in Senior Management roles at present. However, we believe we will make sustainable change happen in the long-term by placing focus on this today.

See our full 2023 Gender Pay Gap Report here: shawbrook.co.uk

The below represents our reportable statistics for our 2023 charter submission

Female staff as percentage of total workforce

2022	2023
46.0%	47.0%

Female senior managers as percentage of total senior management

2022	2023
27.3%	29.5%

Gender pay gap and bonus

	Mean		Median	
	2022	2023	2022	2023
Gender Pay Gap	36.5%	**34.3%**	42.1%	**38.9%**
Gender Bonus Gap	56.5%	**53.9%**	49.7%	**42.9%**

Our gap remains significantly influenced by the proportionately higher number of males in Senior Management roles and is therefore unlikely to materially change in the short term.

Proportion receiving a bonus

	2022	2023
Male	83.9%	86.0%
Female	82.9%	85.3%

2023 gender pay representation by quartiles

Quartile	M	F
Upper	79.8%	20.2%
Upper middle	61.5%	38.5%
Lower middle	42.7%	57.3%
Lower	33.8%	66.2%

1 Scope covers Shawbrook Bank Limited employees only, with TML and BML employees currently excluded.

Making an impact in our communities

Since our inception we have been supporting our communities through fundraising activities, employee volunteering and partnerships, helping to drive positive and lasting social impact. Our refreshed communities strategy is designed to amplify our impact within the communities in which we live and work.

Empower Her project continuing to make an impact

The Empower Her project aims to inspire the next generation of future female leaders through sport, equipping them with skills beyond the rugby pitch. We have worked in partnership with the Saracens Foundation to develop and deliver the project. Now in its third year, the project provides the participants with skills for future employment through mentoring, workshops and networking opportunities. The project was recently recognised at the Sport Industry Awards and shortlisted for the "Purpose Driven Sponsorship" of the year.

"Empower Her has become a flagship project for the Foundation, and none of this would have been possible without the financial support and knowledge sharing provided by Shawbrook. The project has continued to go from strength to strength and we look forward to seeing all the positive change that can come from this partnership in the future."

Emma Wilson

Senior Business Manager, Saracens

Our people making a difference

We offer all colleagues two 'make a difference' days per year, enabling them to volunteer their time to support a wide range of community and charitable activities. These can be through one of our established partner programmes or other more personal causes.

"In September 2023, myself and 10 colleagues volunteered at a local nature reserve. We gained a great sense of satisfaction from seeing immediate results and impact from our efforts and the charity partner was truly appreciative. The day was a lot more physical than normal, however the feedback received was overwhelmingly positive with colleagues motivated by the team building it enabled. We are already planning our next opportunity!"

Janis Hambling

Head of Customer Resolution, Shawbrook

Supporting Go Forward at the Saracens High School

Go Forward provides support to secondary school students who may be at risk of suspension or permanent exclusion. Project officers work with students to increase their attendance, improve their attitude to learning and to explore their aspirations for the future. Our financial contribution supports the delivery of Go Forward and we continue to work with the Saracens Foundation to create opportunities for students, both on and off the pitch.

"We use sport and mentoring to help change the lives of those who are at risk of a multitude of factors at school and home, as well as those in their local communities."

Charles Kiwanuka

Project Officer, Go Forward

Working with Future First to enable social mobility

Through our partnership with education charity Future First, we are committed to enabling social mobility by giving young people in state schools and colleges the opportunity to discover careers they may never have considered. In addition to the financial support provided to Future First, we offer employees the opportunity to get involved, including participation in insights days and mentoring.

"I thoroughly enjoy being a mentor through the Future First programme. I am grateful for the opportunity to share my tips and advice on topics such as revising, job applications and writing curriculum vitaes and personal statements for university. It was great to see the mentees taking the initiative to drive the conversations too."

Prabhpreet Kaur

Data Analyst, Shawbrook

Governance

Strong and robust governance is fundamental to the execution of the Group's strategy, underpinning our purpose and values and forming an essential part of our ESG strategy. We are committed to upholding high standards of governance to ensure we continue to operate as a responsible organisation that creates long-term value for the benefit of all of our stakeholders.

Key highlights

100%
of employees completed climate training

40%
of our Board members are female

60%
of our Board members are independent

Board and Management

The Board is responsible for setting the Group's strategic aims to drive long-term sustainable success, while Senior Management is responsible for implementing and delivering ESG-related priorities. Our comprehensive ESG governance framework, embedded within our existing structure, comprises a dedicated ESG Sub-Committee and Working Groups. During 2023, ESG-related matters continued to feature as Board agenda items, with Directors engaging and challenging on these important issues. The Board received dedicated climate-focused training in January 2024 to further support their understanding of the evolving sustainability landscape, enabling input and challenge.

Board effectiveness

We continually review the composition of our Board to ensure that we have a diverse range of skills, experience and perspectives among our Directors to fulfil our stewardship responsibilities and drive our ambitious trajectory. The 2023 annual Board effectiveness review concluded that the Board and its Committees operated effectively. Details of the Board effectiveness review can be found on page 58 of the Group's Corporate Governance Report.

The Board recognises that diversity is a key enabler to Board effectiveness. As a result, all appointments seek to increase diversity in the Boardroom without compromising the quality of the Board. The Board fosters an inclusive environment where every Director's input is valued, and bias and discrimination are not tolerated.

ESG-linked Executive pay

In 2023, the Group's bonus scheme design for its Executive Committee members continued to include performance measures relating to ESG factors, including:

- Evolving our EDI agenda, evidenced by progress towards our Women in Finance Charter Target of 30% female senior leaders by September 2024 and the evolution of our broader EDI data insights;
- Continued delivery of our climate strategy by showing progress against our agreed strategic pillars; and
- Successful delivery of our strategic charity partner programmes.

ESG measures will continue to remain a key feature of the bonus scheme design in 2024.

Robust governance and risk management

Sustainable financing: ESG principles

We recognise that our customer and partner activities can have ESG impacts. To help us assess and manage this, we have developed a set of ESG principles that are embedded within our credit risk policy. These principles continued to guide our lending decisions during the year.

As part of our ESG principles, we seek to finance activities that support the transition to net zero, while avoiding providing finance outside of our internally defined thresholds. The principles outline lending prohibitions for specific activities and requirements for enhanced due diligence for sectors we have determined as sensitive due to the potential for high adverse environmental and/or social impact. These include power and energy, marine and aviation, agriculture and transportation.

The ESG Panel, consisting of the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer, is an escalation route for transactions identified as having the potential for high environmental and/or social risk.

SDG alignment

The United Nations Sustainable Development Goals (SDGs) are a set of 17 interconnected global objectives to guide nations, governments and companies towards a sustainable future. During 2023, we reassessed our current ESG activities against our focused eight SDGs and believe we have positively contributed to our focused SDGs across our key stakeholder groups.

The table below shows examples of how we positively contribute to our focused SDGs across our key stakeholder groups:

SDG	4 Quality Education	5 Gender Equality	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities	11 Sustainable Cities and Communities	13 Climate Action	17 Partnerships for the Goals
Employees		✓	✓		✓		✓	
Customers			✓	✓		✓	✓	✓
Communities	✓	✓						✓
Suppliers			✓				✓	

Data protection and privacy

We are committed to upholding and securing the information we handle, adhering to the UK Data Protection Regulation. With established policies and processes, we aim to effectively manage the privacy risks associated with the personal data in our care. Oversight of our comprehensive Privacy and Data Protection Framework rests with our designated Data Protection Officer, who ensures its management across the Group. Additionally, our first-line operations have appointed privacy champions and data protection representatives to guide and promote best practice.

In 2023, our focus was on strengthening trust and confidence in our data protection approach through a structured programme addressing four key dimensions:

1. Fostering a compliant culture
2. Implementing robust policies, procedures and controls
3. Staying responsive to emerging privacy issues
4. Continuously evaluating the effectiveness of our privacy framework

Cyber security

We adopt a holistic approach to information security controls. We have a dedicated cyber incident response plan in place which details the material considerations in the event of a cyber incident and focuses on the response flow of prepare, detect, contain, eradicate and recover.

We have designed an Adaptive Security Architecture Framework which provides the information security capabilities to prevent, detect, respond and predict. Combined, these controls provide multiple layers of protection to mitigate the cyber and information security risks and maintain the ongoing security posture of the Group. All controls that underpin the capabilities are recorded against the respective risks in the group risk management system and are subject to bi-annual controls assessment.

Agreed cyber risk measures are reported monthly into the Group Risk Appetite Review (GRAR) forum and the topic of cyber risk is regularly considered at the Operational Risk and Third-party Oversight Committee (ORTOC), Executive Risk Committee and by Board. During 2023 the Chief Information Security Officer presented an 'in focus session' at ORTOC on cyber information and technology risk and provided updates to the Executive Committee on identity access management improvements and presented a summary of the 2023 CQUEST cyber resilience questionnaire.

We continue to undertake periodic testing of the controls at the Group's technology perimeter with the support of external advisers and continue with a programme of visible awareness for colleagues.

Exposure/vulnerability assessment
Predict attacks | baseline systems

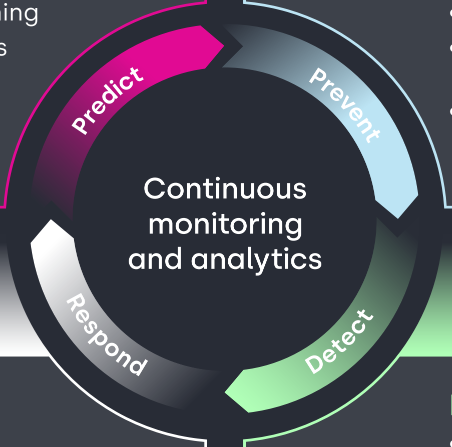
How Shawbrook predicts

- Secure code reviews
- Automated vulnerability scanning
- Pen testing/red-team exercises
- Cyber threat intelligence

Harden systems
Isolate systems | prevent attacks

How Shawbrook prevents

- Endpoint protection
- Network isolation
- Network intrusion prevention systems
- User behaviour preventative capabilities



Investigate/forensics Remediate/change | design/model change

How Shawbrook responds

- System patching
- Forensic & incident response services
- Incident response

Contain incidents

How Shawbrook detects

- Network anomaly detection
- Managed incident detection and response
- Enterprise data loss protection & data classification capabilities
- Containment

To enhance our protections against cyber-attacks, we operate a programme of continuous improvement. Throughout 2023, we continued to invest in our cyber security capabilities, including increasing the capacity within our information security team. Cyber awareness training and regular staff communications in response to relevant threats were performed throughout 2023.

Compliance, conduct and ethics

Our policies, procedures and approach incorporate regulatory requirements, including principles of good conduct and responsible lending. We adopt an ongoing process for developing compliance policies, staying informed through regulatory and legislative horizon scanning.

A significant focus during 2023 was the delivery of Consumer Duty requirements, which establish higher and clearer standards for consumer protection across financial services. We successfully launched Consumer Duty in July 2023 and continue to work towards the implementation for back-book products ahead of the July 2024 deadline.

Given the challenges associated with the heightened cost of living, our forbearance policy and processes continue to have significant focus. When our customers face difficulties in meeting repayments, we deploy appropriate and proportionate controls, demonstrating our commitment as a responsible lender.

Our vulnerable customer policy sets requirements for and empowers front-line teams to ensure customers who are vulnerable are identified and treated appropriately.

Financial crime

We are committed to fulfilling our legal and regulatory obligations through the application of a risk-based approach to deter, detect, prevent and report financial crime.

To mitigate the risk of the Group's products and services being used to perpetrate financial crime we continue to invest in technology and talent to enhance our control framework and protect us, our customers, and the industries we operate in from the harm caused by financial crime. During 2023, we invested in technology and additional resource to ensure that the Group's financial crime prevention infrastructure and processes remain robust.

We conduct a financial crime risk assessment to assess compliance with Shawbrook policies, with a focus on the following risk categories: money laundering and terrorist financing risk, bribery and corruption, sanctions risk, tax evasion risk and fraud risk. Employees receive annual training in these areas and completion is monitored through the governance framework.

We continue to monitor the increasing complexity of financial crime threats and changes to the legislative and regulatory framework to identify and manage emerging risks.

Operational resilience

Our operational resilience approach ensures the continuity of the most important services our customers rely upon. We assess, improve, and test our approach to minimise disruption and are focused on meeting agreed service levels. In 2023 our focus on third party and technology resilience improved our ability to operate services during disruption through contingency control development and further investment in technology; notably our digital savings platform and payment system upgrade projects. Our enhanced Incident Management Framework continues to support us in responding to and resolving incidents faster to reduce disruption to our customers when things go wrong. We continue to look ahead and around corners at potential threats to our resilience and assess them through testing to further minimise disruption our customers may face and provide the best service possible.

Third party suppliers

Our wide-reaching third-party supplier network provides us with the goods and services which we rely on to deliver good outcomes for our stakeholders. We regularly review our supply chain and engage with our supplier community to help ensure they are acting responsibly and continue to align with our core values and regulatory requirements. Throughout 2023, we have embedded and aligned the Group Procurement and Third-Party Risk Management Policy. This sets out the relevant rules and guidance to ensure that procurement, contracting and supplier management activities are undertaken in line with relevant regulatory standards. We have also set an ambition for at least half of our suppliers, with annual spend of over £200,000, to be net zero aligned by 31 December 2025. Please refer to the Climate Report on page 152 for further information.

Human rights and modern slavery

We are committed to respecting human rights and have a zero-tolerance approach to any modern slavery. We regularly review our processes and policies to ensure that any occurrences are swiftly addressed. In 2023, we set up a cross-disciplinary Modern Slavery Working Group to manage centrally all anti-modern slavery related activity. We also commissioned another assurance review of evidence supporting our policies, procedures, and controls, to ensure that we are taking appropriate steps to prevent slavery and human trafficking from both our business and supply chain.

A full copy of our modern slavery statement can be found on the Group's website at: **shawbrook.co.uk**

Training

All of our employees take part in structured learning throughout the year on topics including anti-bribery and corruption, anti-money laundering, conduct, climate change, financial crime and understanding vulnerable customers. To complement our mandatory training, we encourage all employees to undertake 35 hours of continuing professional development each year. Employees are provided with the opportunity to sign up to courses and bite size learning through a digital learning bank. Study support for external training and development is also made available on a case-by-case basis.

During 2023, we supported 30 employees to achieve professional qualifications, delivered a number of mental health awareness training sessions and designed a new programme for managing Mental Health, designed a new management programme for all new managers and supported students to gain vital skills to start their working careers. We have also raised awareness of our ESG agenda by inviting guest speakers to internal events on a number of topics including neurodiversity, gender equality and climate change.

Whistleblowing and Speak Up

We are committed to the highest standards of transparency and accountability. In 2023 we launched our Speak Up Framework and policy (rebranded from whistleblowing) and continue to increase awareness and encourage employees and third parties to speak up when they see conduct inconsistent with our values. Our focus on embedding our Speak Up approach will continue throughout 2024.

Anti-bribery and corruption

It is the Group's policy to conduct all business in an honest and ethical manner, taking a zero-tolerance approach to bribery and corruption. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate by embedding and enforcing effective systems to counter the risk of bribery and corruption.

Our policy, which helps to establish controls and ensure compliance with all applicable anti-bribery and corruption regulations, applies to all Directors, employees and partners and is reviewed and approved annually by Board. We follow the recommended Ministry of Justice Guidance on the Bribery Act 2010 which presents six principles for implementing adequate procedures to prevent bribery. These are: Proportionality; Top-Level Commitment; Risk Assessment; Due Diligence; Communication; and Monitoring and Review.

To promote our commitment to conducting business in a socially responsible manner, we undertake due diligence checks when onboarding new employees in addition to maintaining delivery of our mandatory training and policy reading for all employees.

Tax strategy

We are committed to fulfilling our tax obligations responsibly and transparently, fairly contributing to the UK economy and wider society. We have adopted and comply with HMRC's Code of Practice on Taxation to manage tax risks, and seek to maintain an open, honest and constructive relationship with HMRC in relation our tax affairs.

More information on our tax approach is available on our website: **shawbrook.co.uk**

Sustainable Finance Framework

We are committed to providing clear and transparent definitions for lending that creates a positive environmental and/or social impact. During 2023, we developed our Sustainable Finance Framework which outlines our environmental and social eligibility criteria to determine which assets and activities qualify as sustainable finance. Lending that meets the defined thresholds qualify as sustainable finance, helping to measure and demonstrate our contribution towards environmental and socially beneficial activities. The framework is informed by recognised industry standards and taxonomies including, but not limited to, the EU taxonomy, the International Capital Market Association and Loan Markets Association Green and Social Principles.

Environmental

- **Green built environment** covers EPC A and B rated properties, other specific industry ratings such as BREEAM and retrofits for existing buildings.
- **Energy efficiency** covers any assets or activities that result in a minimum 20% energy efficiency improvement or heat loss reduction.
- **Renewable and low carbon energy** covers assets and activities that relate to these energy sources including wind, solar and biofuels.
- **Sustainable infrastructure and transport** covers electric, hybrid or alternatively-fuelled transportation and associated infrastructure and activities, with specific emission thresholds.
- **Sustainable management of natural resources** covers activities that support agriculture, fisheries and forestry, complying with specific sustainability standards.
- **Sustainable waste and water management** covers activities that provide access to clean water or improve water efficiency and quality.

Social

- **Home ownership for specific underserved population** including first time buyers, later life borrowers (aged 55 years or above) with assessed incomes below the UK median household income and complex incomes.
- **Affordable housing** covers social and affordable housing including registered social landlords, and mortgages to government or industry backed schemes such as shared ownership or deposit unlock scheme.
- **Healthcare** covers all NHS or affiliated with NHS trust, not-for-profit care homes and community health providers.
- **Education and training** covers all activities not considered private education including not-for-profit schools and schemes for reskilling or upskilling.
- **Access to credit and financing** covers financing to Community Development Finance Institutions and SMEs that meet specific criteria.
- **Access to transportation and infrastructure & access to public spaces** covers activities in underdeveloped rural areas or regions in the UK.

Creating value for our stakeholders (S172 statement)

This section describes how the Directors have had regard to matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. Effective stakeholder engagement is central to the development and execution of our strategy, helping us to achieve our purpose and ensure the long-term sustainability of our business. In undertaking its duties, the Board continues to be mindful of the need to appropriately balance the interests and expectations of the Group's stakeholders, and in doing so, throughout 2023, the Board (including its sub-committees) continued to engage with and consider the needs of the Group's stakeholders.

Customers

Building an exceptional franchise is at the core of our strategy, so understanding what is important to our customers is key to our long-term success. We stay closely connected to our clearly defined customer groups and use the valuable insights gathered to tailor our offering to meet their evolving needs.

Throughout the year we provided support to those dealing with the impacts of the increased cost of living. This included the introduction of a new product transfer proposition to assist those customers coming to the end of their fixed rate loans. The Board has and will continue to be focused on ensuring the Group supports its customers as needed.

Building on a deep understanding of our customers' needs, during 2023 we continued to make good progress in engineering our infrastructure to put data insights at the centre of the organisation. Evolving our existing insight capabilities, we introduced a dedicated team to encourage consistent application across the Group. We also enhanced our data-driven approach with the continued investment in technology and AI to distil customer feedback into actionable insights, which will continue to be used to validate our existing and develop future propositions. Outputs from our monthly customer experience forum meetings, including a dashboard of customer insight data, are regularly shared and discussed with the Executive Committee and Board.

Using digital and data to enhance our customer journeys further, we increased automation across our core platforms. We also extended our reach into new markets offering underserved segments valuable, digital-led propositions, including the used motor finance market via our Board approved platform lending agreement with BMFL.

The Group won various awards during the year, including Buy-to-let lender of the year at the National Association of Commercial Finance Brokers Patron Awards 2023, Best Savings Provider at the Savings Champion Awards 2023 and Lender of the Year at the HealthInvestor Awards 2023. Being recognised by industry experts for the quality of our products and service reinforces our customer-centric approach.

Distribution partners

We work with a range of like-minded distribution partners to help deploy our products and services across our markets. These partnerships form an essential part of our business model and enable the successful delivery of our strategy, providing us with deeper insights into our markets to drive better customer outcomes.

During 2023, we maintained regular and open dialogue with our extensive network of distribution partners. This included direct broker meetings and network events attended by our Chief Executive Officer and Chief Financial Officer to hear first-hand what matters most to our partners and customers. This included our Strategic Partners Day event, intended to set out the Group's response to the macroeconomic environment and our plans for the coming year. A number of interactive workshops were held throughout the day, focused on key broker support areas, to enhance our interactions and their understanding of our combined Enterprise proposition. The day was a success among our brokers, with feedback suggesting they appreciated our support during the volatile period as well as the opportunity to provide insights into how we can continue to support them moving forward.

We continue to actively listen to and seek regular feedback from our broker network. Our annual broker barometer survey allows us to regularly check-in with our broker partners, helping us to stay informed on the challenges and opportunities facing them. We also deployed various ad hoc surveys across the Group, helping us identify additional improvement areas to benefit and support our brokers.

Feedback from our distribution partners influences our technology investment decisions, including most recently the ongoing developments of our Next Generation Underwriting Hub where several discovery sessions were held with our brokers. Actionable feedback included consistency of decision, transparency and speed, helping to make our journeys more streamlined. Our CRM ecosystem, currently within TML, also continued to provide an automated journey to welcome and nurture our brokers, generating incremental results in engagement. The Board received updates on the enhancements made during the year, noting the tool would be a helpful lever to drive continued high quality broker engagement.

Spotlight
Bluestone Mortgages Limited (BML) acquisition

The Board played a critical role in the Group's acquisition of BML, which has provided Shawbrook with significant growth opportunity via a widened distribution network and product range. Since acquisition, the Board remains closely connected to BML activity including participation in dedicated spotlight sessions with BML.

Customer considerations were central to the Board's approval of the acquisition, acknowledging the benefits that the broadened product proposition, increased certainty of funding and combined market reach would bring to our customers.

Ahead of the formal acquisition in May 2023, we maintained ongoing dialogue with the regulator, with regular updates shared with the Board.

Following the acquisition, we adopted a harmonisation approach to efficiently combine BML into the wider Group. All BML employees are now part of the Group and integrated into our human resource infrastructure. Throughout the harmonisation process, integration of technology was a core consideration to ensure that all synergies were identified. BML's Chief Executive Officer also attends the Group Executive Committee meetings and engages directly with the Board, encouraging a consistent approach and cascade of the Group's strategy.

Employees

Recognising that our continued success is underpinned by a productive and engaged workforce, the Board is committed to promoting a truly inclusive environment where our people are motivated to be innovative.

To continue to be recognised as an organisation that both attracts and retains the best talent, during 2023 we continued to invest in our broader employee value proposition. This included the introduction of new tools including a Leadership Framework that articulates the guiding principles needed to succeed as a leader at Shawbrook. We also bolstered our future talent pool, introducing various Board endorsed initiatives including our Thrive apprenticeship and Institute of Chartered Accountants in England and Wales finance graduate programme.

To uphold our strong culture that drives innovation, entrepreneurialism and inclusivity, the Board recognises the importance of maintaining open and honest dialogue with our employees. During 2023, we continued to deploy our bi-annual engagement surveys and maintained ongoing collaboration with our employee-led People Engagement Forum. Both of these initiatives provide the Group's employees with the opportunity to share feedback with Board and Executive Committee members on key strategic topics.

Collaboration forms a core part of our culture, so in addition to the formal engagement methods, employees are encouraged to get involved in various networking events, panel discussions and more.

Alongside regular attendance at our office locations, Board members are advocates of our approach to EDI and play an active part in driving our agenda. We hosted various events throughout the year including our Gender and Belonging events, some of which were attended by the Group's Chairman alongside the Group's Non-Executive Directors.

Recognising the importance of celebrating our successes internally, we took steps to enhance our employee recognition scheme. Designed to commend those that have gone above and beyond in living our experience principles of *personal*, *practical* and *creative*, our internal Ingenuity Awards encourage nominations all year round. Winners are announced each quarter, with a celebratory lunch also held annually for all winners hosted by Executive Committee members.

Suppliers

Our suppliers include companies that provide the goods and services we rely on to operate as a sustainable business. The Group's broad community of suppliers has an important role to play in the successful delivery of our operations.

We are committed to developing trusted relationships with high quality suppliers, who themselves are committed to operating under ethical and environmental standards in line with our own. We therefore regularly review our supply chain and engage with our suppliers to ensure they are acting responsibly.

In accordance with regulatory requirements, regular performance updates of the Group's material third parties are shared with the Board. These include MI, performance measures and risk oversight to drive continuous improvement.

The Group is committed to doing business with honesty and integrity. We have a zero-tolerance approach to modern slavery, with the Board approving the Group's Modern Slavery Statement each year. We expect all of our suppliers to be compliant with the Modern Slavery Act and extend our expectations of high business standards to our suppliers by requiring them to uphold human rights, health and safety and legal compliance. We perform due diligence on all suppliers at the start of any contractual relationship which includes screening checks for criminal and regulatory breaches.

During 2023, we set up a cross-disciplinary Modern Slavery Working Group to manage and enhance our governance approach. We also commissioned another assurance review of evidence supporting our policies, procedures, and controls, to ensure that we continue to take the appropriate steps to prevent slavery and human trafficking from both our business and supply chain.

Regulators

Shawbrook is regulated by both the PRA and the FCA. The Board engages with our regulators on a range of topics and is committed to maintaining strong, open and transparent working relationships with them.

We adopt an ongoing process of developing compliance policies, consistently monitoring changes in regulations. The Board is kept up to date on key regulatory developments throughout the year, helping to ensure that the Group's strategy and decision-making aligns with regulatory requirements.

At each meeting a standing agenda item on regulatory and legislative horizon scanning is included from the Risk Committee. Alongside references in management reports, the Group's Chief Risk Officer also provides regular updates to the Risk Committee on regulatory engagement.

Throughout the year, the Group's Chairman and Executive Directors hosted meetings with the regulators on key strategic topics, supported by regular engagement with Senior Management, covering prudential and conduct aspects.

An important focus during the year was the adoption of the FCA Consumer Duty regulations which seek to ensure that banks offer good outcomes for customers. As well as ensuring its principles are ingrained within the Group's culture, we continued to adapt our customer journeys to align with expectations. Management attestation of substantive compliance with the regulations was provided to the Board in July 2023.

Spotlight
New premises

During the year, we announced plans to upgrade our London premises and move to a new state-of-the-art office space in 2024.

Acknowledging the benefits for all of the Group's stakeholders, the Board championed this strategic move. Throughout the procurement process the Board was engaged in various discussions regarding requirements, employee benefits and costs, enabling them to make an informed decision before providing formal approval in September 2023.

To ensure the new space aligned with our employee value proposition, the Group's Chief People and Marketing Officer was actively involved throughout the process. The premises will enable us to recruit and retain the best talent centred around employee engagement and collaboration, while supporting accessibility and inclusive ways of working. The new premises will also offer a modern and flexible working environment, with a range of amenities and facilities to support our employees' wellbeing.

The building will provide a great space for our people to come together, fostering strong engagement and wellbeing objectives. It will also offer more space to accommodate face-to-face meetings with our customers and distribution partners. The building will have exceptional client facilities equipped with the latest technology, to facilitate collaboration and communication, providing new on-site opportunities with key clients, partners and brokers.

We are committed to creating a workplace that is considerate to both our environment and our people. The new building is targeting leading sustainable, smart and health accreditations including BREEAM[1] Excellent, NABERS 5*[2] and WELL Building Standard Platinum, aligning with our own commitment to sustainability and wellness.

1 Building Research Establishment's Environmental Assessment Method.
2 National Australian Built Environment Rating System.

Investors

Our investors include both our private equity-backed Shareholder and our debt investors.

Our Shareholder's interests are represented at Board by two appointed Non-Executive Directors. The relationship with our Shareholder is open and transparent and we value their expertise and trust. During 2023, our Shareholder and their dedicated teams remained actively engaged in the Group's strategic decision-making, with our Senior Management team able to draw on their expertise as and when required. Our Shareholder also helps to bring different perspectives into the Boardroom, providing insights on strategic topics including asset management, real estate and ESG.

Throughout the year we attended various events hosted by our Shareholder, enabling us to share with and leverage the insights and expertise of the other companies included within our Shareholder's portfolios. During 2023, these covered finance, people and ESG related topics.

We have a comprehensive engagement programme with our debt investors. During 2023, we held c.40 meetings with the Group's debt investor community, covering various topics including financial results, delivery against our strategy and wholesale debt issuances. Feedback from our debt investor base has been positive and has helped to shape our proactive communication approach.

To ensure the Board is kept informed on changing macroeconomic conditions that could influence wholesale market decisions and potential investor sentiment, the Group's Chief Financial Officer shares regular market updates with the Board.

Community

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

We are an organisation focussed on creating opportunity and are passionate about supporting the communities we operate in as well as contributing to a more sustainable future. Since our inception, we have been helping to drive positive and lasting social impact across our communities.

We continue to embed our Board approved ESG strategy across our organisation. Further detail on the impact we have had on our communities in 2023 is set out in our ESG Report on pages 22 to 43.

Non-financial and sustainability information statement

Our non-financial and sustainability information statement has been prepared in order to comply with the requirements contained in sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by cross-reference to relevant content.

Reporting requirement	Relevant policies, principles and statements that govern our approach (please see page 50 for a description of each policy)	Information necessary to understand our approach, impact and outcomes	Page references in this report
Our employees	• Code of conduct and ethics policy • Training and development policy • Dignity at work policy • Speak up policy • Board diversity and inclusion policy • Facilities policy	Employees under creating value for our stakeholders (S172 statement)	44
		Our people: Attracting and retaining the best talent, under Social within the ESG Report	32
		Pace, scale of change and people risk of the Risk Report	101
Our suppliers	• Group procurement policy • Third party risk management policy	Third party suppliers under Governance within the ESG Report	42
		Suppliers under creating value for our stakeholders (S172 statement)	46
		Intermediary, outsourcing and operational resilience of the Risk Report	98
Environmental matters	• ESG principles • Facilities policy • Credit standards policy	Environment within the ESG Report	25
		Climate risk within the Risk Report	148
		The Group is guided by the United Nations SDGs, Partnership for Carbon Accounting Financials methodology, GHG Reporting Protocol Framework, the 2015 Paris Agreement and the TCFD recommendations.	
		2023 Climate Report	152
		Our website **shawbrook.co.uk** for more information	
Social matters	• Dignity at work policy • Equal opportunities policy • ESG policy • Complaints handling policy	Social within the ESG Report	29
		Our website **shawbrook.co.uk** for more information	
Human rights and modern slavery approach	• Pursuant to the UK Modern Slavery Act, we produce an annual modern slavery statement **shawbrook.co.uk** • Procurement policy	Human rights and modern slavery act under robust governance and risk management within the ESG Report	42
		Suppliers under creating value for our stakeholders (S172 statement)	46
Anti-bribery and corruption	• Anti-bribery and corruption policy	Training and anti-bribery and corruption under robust governance and risk management within the ESG Report	43
		Financial crime within the Risk Report	148

Reporting requirement	Information necessary to understand our approach, impact and outcomes	Page references in this report
Description of our business model	About Shawbrook within the Strategic Report	1
	Unique and difficult to replicate business model within the Strategic Report	3
	Creating competitive sustainable advantage within the Strategic Report	4
Non-financial key performance indicators	Shawbrook in numbers	Front page
	ESG Report	22
Principal risk and uncertainties	Principal risks within the Risk Report	104
Climate-related disclosures as required by section 414CB of the Companies Act 2006	(a) Description of the governance arrangements in relation to assessing and managing climate-related risks and opportunities.	164
	(b) Description of how the company identifies, assesses, and manages climate-related risks and opportunities.	167
	(c) Description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process.	167
	(d) Description of (i) the principal climate-related risks and opportunities arising in connection with the operations of the company, and (ii) the time periods by reference to which those risks and opportunities are assessed.	154
	(e) Description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company.	154
	(f) An analysis of the resilience of the company's business model and strategy, taking into consideration of different climate-related scenarios.	154
	(g) Description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.	173
	(h) Description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.	173

Policy	Description
Anti-bribery and corruption	This policy outlines our approach to managing the risk of bribery and corruption to ensure we conduct business in an honest and ethical manner, taking a zero-tolerance approach to bribery and corruption.
Board diversity	Our commitment to having a diverse and inclusive culture applies to our Board. This policy sets out our commitment to ensuring we have a diverse range of skills, experience and perspectives among our Directors, with appointments to the Board based on merit.
Code of conduct and ethics	This policy is intended to assist employees in their daily decision-making, providing guidelines for how to appropriately behave in relation to customers, suppliers and external parties.
Complaints handling	This policy sets out our aim of ensuring that any complaints received in relation to the service we provide for our customers are handled fairly, effectively, and promptly; thereby minimising the number of unresolved complaints and delivering a fair outcome for our customers.
Dignity at work	This policy sets out our commitment to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect.
Equal opportunities	This policy demonstrates our commitment to equal opportunities in employment and opposition to all forms of unlawful discrimination in employment and against customers.
ESG	This policy sets out our approach to ESG and developing opportunities and managing risks across ESG issues. The purpose is to communicate our ESG strategy to employees and help to embed this across the organisation.
Facilities	This policy sets out our duty as an employer to comply with relevant regulation and legislation under the remit of facilities management and to ensure the health, safety and welfare of all employees and our commitment to improving environmental performance across all of our business activities and estate.
Group credit risk policy standards	This policy outlines our approach and appetite for climate-related matters, and wider environmental, social and ethical issues associated with the sectors and customers we support. It sets out when exclusions apply or when enhanced due diligence is required where there is potential for high adverse, environmental, social and/or ethical impact linked to lending proposals.

Policy	Description
Group procurement	This policy provides rules and guidance to ensure that procurement, contracting and supplier management activities are in line with our risk appetite, meet all regulatory and legal obligations and align with our wider strategy and purpose.
Policy governance	This policy sets out our responsibilities and requirements for the management, monitoring and oversight of policies through their governance lifecycle and details the controls, documentation and communication of key messages or policy changes.
Training and development	This policy sets out our approach to encouraging training and development, acknowledging that it helps to improve the Group's performance and contributes to the retention and development of future talent.
Third party risk management	This policy contains the relevant rules and guidance to ensure that procurement, contracting and supplier management activities are undertaken in line with relevant regulatory standards.
Speak up	This policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting the Group.

The Strategic Report was approved by the Board on 28 March 2024 and signed on its behalf by the Chief Executive Officer.

Marcelino Castrillo
Chief Executive Officer

Corporate Governance Report

Chairman's introduction

"On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2023."

Our commitment to good corporate governance

We maintain high standards of corporate governance within the Group. There are a comprehensive range of policies and procedures in place designed to encourage effective oversight and controls. This report explains how the Board and its committees have ensured that the corporate governance arrangements within the Group are effective and continue to help support the creation of long-term sustainable value for our Shareholder and wider stakeholders.

The Board endorses the Financial Reporting Council's UK Corporate Governance Code 2018 (the Code), which we have applied to our 2023 financial year. We seek to ensure that our governance framework remains aligned with best practice and is consistent with the Code, where appropriate. The Board noted the updated Code, published on 22 January 2024, which comes into effect on 1 January 2025. Further details on our compliance with the Code can be found on page 56.

Board succession planning

No additional appointments were made to the Board during 2023, however, the Nomination and Governance Committee was strengthened with the addition of Andrew Didham and Janet Connor to the membership. This will allow the Committee to extend its focus on executive succession and talent development. The Board continues to monitor the membership of the Board and its committees to ensure that there is a suitable balance of diversity, skills and experience.

Board meetings and activity

In 2023, the Board considered several key areas, which can broadly be categorised into the following themes: strategy and execution, financial performance, risk management, regulatory and corporate governance. Further details on how the Board operated during 2023, including the areas of Board focus, can be found on page 62.

The Board's committees also continued to play a critical role in the governance and oversight of the Group, by ensuring adherence to strong governance practice and principles. In addition, two Independent Non-Executive Directors continued to ensure Board engagement and oversight through their respective sponsorship of the Consumer Duty and our data-led culture through model risk working groups. This section contains a report from the Board's principal committees, which sets out their approach and considerations.

Effectiveness and evaluation

Further details on how the Board reviews its effectiveness can be found on page 58.

Purpose, culture and experience principles

The Group's success is reliant on our commitment to maintaining high standards of corporate governance, as well as a strong purpose and inclusive culture. In support of this, the Board is committed to upholding the Group's core experience principles (practical, personal and creative) that underpin how we run our business.

The Board receives updates throughout the year regarding the Group and its stakeholders, including details of our Group-wide employee engagement surveys conducted in May and October 2023. The Board and Senior Management also continue to interact with the People Engagement Forum to bring the voice of our employees into the Boardroom so that better, more informed decisions are made. In addition, members of the Board attend town halls, all staff calls, site visits and community events.

Looking forward

Our corporate governance priorities for the year ahead will be focused on ensuring continued alignment between our purpose, culture, business and strategy throughout our governance framework.

John Callender
Chairman

Board of Directors

John Callender
Chairman

R N

Appointed to the Board in March 2018.

Skills and experience
John brings extensive financial services experience to the Board, gained through both his Executive and Non-Executive careers. John has previously served as Interim Chair and Chair of the Risk Committee of Aldermore Group plc, and served on the Board for six years, Chair of the trade body; the Finance and Leasing Association, Non-Executive Director of Motability Operations plc, Non-Executive Chair of ANZ Bank Europe Ltd, and Senior Independent Director and Chair of the Risk Committee of FCE Bank plc. John also sat on the Regulatory Decisions Committee for the Financial Conduct Authority for six years, finishing his two statutory terms in January 2020.

External appointments
None.

Marcelino Castrillo
Chief Executive Officer

Appointed to the Board in June 2021.

Skills and experience
Marcelino brings a wealth of experience in financial services, most recently he was Managing Director, Customer Engagement & Distribution at NatWest Group where he led 9,000 employees through an ambitious transformation programme. Prior to that, he held senior roles at RBS and Santander, leading Commercial Banking franchises. He started his career at Boston Consulting Group working across a number of industries and countries. Marcelino holds an MBA from MIT Sloan School of Management, MS Industrial Engineering (ETSII, Madrid) and a Bachelor in Physics (U. Complutense, Madrid).

External appointments
None.

Dylan Minto
Chief Financial Officer

Appointed to the Board in February 2017.

Skills and experience
Dylan joined Shawbrook in 2013 from KPMG LLP, where he spent 11 years in their Financial Services practice advising large UK and European banks. Dylan was appointed Chief Financial Officer in February 2017. He is a Fellow of the ICAEW and holds a dual BA Honours degree in German and Business Studies from Sheffield University.

External appointments
None.

Lan Tu
Senior Independent Director

A RI R N

Appointed to the Board in March 2022.

Skills and experience
Lan has over 30 years experience in financial services, starting her career at McKinsey & Co, before holding a number of executive positions at American Express, Standard Life Aberdeen and Virgin Money Investments. Between 2015 and 2021 Lan was also a Non-Executive Director of Arrow Global PLC. She has a particular depth of experience in payments, digital/technology and organisational design.

External appointments
Lan is a Non-Executive Director of WNS Holdings Limited and Kings College London University and is SID designate of Paypoint plc. Until recently, Lan was also an advisor to the Board of Mental Health @Work, a company that promotes mental health in the workplace.

A Audit Committee | RI Risk Committee | R Remuneration Committee | N Nomination and Governance Committee | Committee Chair

Andrew Didham
Independent Non-Executive Director

A RI N

Appointed to the Board in February 2017.

Skills and experience
Andrew has extensive financial services experience. He is a fellow of the Institute of Chartered Accountants, having enjoyed a successful career at KPMG LLP, becoming a partner in 1990, and subsequently as Group Finance Director of the international Rothschild investment banking group.

External appointments
Andrew is currently an Executive Vice-Chairman for Rothschild and Non-Executive Director of each of IG Group Holdings plc, IG Index Limited, IG Markets Limited, IG Trading and Investments Limited and Non-Executive Chairman of GCP Infrastructure Ltd.

Paul Lawrence
Independent Non-Executive Director

A RI R N

Appointed to the Board in August 2015.

Skills and experience
Paul has considerable experience in financial services having had a successful career within HSBC Group. Paul has particular strengths in managing risk and internal audit across a number of business lines and previously served as a member on the IIA Committee for Internal Audit Guidance for Financial Services.

External appointments
Paul is currently the Chairman of HSBC Bank Turkey and Independent Non-Executive Director of HSBC Middle East Holdings B.V. and HSBC Bank Middle East Ltd.

Michele Turmore
Independent Non-Executive Director

A RI R N

Appointed to the Board in October 2019.

Skills and experience
Michele has comprehensive experience in operations, transformation, IT and distribution leadership, with focus on the customer. She has operated across blue chip, mid-scale and start-up entities, including private equity backed banks. Michele previously held Executive and Chief Operating Officer roles at a number of banks, including Lloyds TSB, Harrods and Allica.

External appointments
Michele is currently a Non-Executive Director and the Risk Committee Chair of Davies Broking Services Limited, Davies MGA Services Limited and Davies Intermediary Support Services Limited and a Non-Executive Director, and Chair of the Remuneration Committee of Northern Bank Limited.

Janet Connor
Independent Non-Executive Director

A RI N

Appointed to the Board in May 2022.

Skills and experience
Janet has over 30 years experience in consumer-facing financial services, latterly in insurance. Starting her career at Abbey National (now Santander), she went on to hold a number of Managing Director positions at RIAS plc, Royal & Sun Alliance (in its More Than business) and most recently The AA Group, where she was Managing Director of AA Insurance Services Ltd.

External appointments
Janet is a Non-Executive Director and Chair of AA Insurance Services Limited.

A Audit Committee RI Risk Committee R Remuneration Committee N Nomination and Governance Committee Committee Chair

Lindsey McMurray
Institutional Director

A RI R N

Appointed to the Board in April 2010.

Skills and experience
Lindsey has been a private equity investor for 25 years, with a particular focus on the financial services sector. She has a First-Class Honours degree in Accounting and Finance and studied for an MPhil in Finance from Strathclyde University.

External appointments
Lindsey is Managing Partner of Pollen Street Capital and is Chairman of their Investment Committee. Lindsey is also a Non-Executive Director of several portfolio companies.

Cédric Dubourdieu
Institutional Director

A RI R N

Appointed to the Board in September 2017.

Skills and experience
Cédric has 20 years of private equity experience, having led several investments in a variety of sectors across Europe. He holds a degree from Ecole Polytechnique, Paris.

External appointments
Cédric is a Partner of private equity firm BC Partners and sits on BC Partners' Investment Committee. BC Partners is an affiliate of Marlin Bidco Limited of which Cédric is also a Director. Cédric is also a Board member of Iqera the French leader of credit management services, a board member of Davies Group, a leader in professional services to the insurance sector and other regulated industries and a board member of Havea, the leading European natural healthcare player.

Andrew Nicholson
Company Secretary

Appointed as Company Secretary in January 2023.

Skills and experience
Andrew has over 20 years experience in corporate governance roles. Andrew has previously held Head of Corporate Governance roles at Revolut, Ulster Bank and RBS International and was Assistant Company Secretary of the Royal Bank of Scotland.

External appointments
None.

A Audit Committee RI Risk Committee R Remuneration Committee N Nomination and Governance Committee ● Committee Chair

Corporate governance

This report explains the Board's role and activities and how corporate governance operates throughout the Group.

The UK Corporate Governance Code

The Company is no longer considered a listed entity (since delisting in 2017) and is not required to adopt the 'comply or explain' approach of the Code published by the Financial Reporting Council. However, the Company recognises the value of a strong approach to corporate governance and has therefore again elected to report against the Code for the financial year.

The Company has complied with all the principles and provisions of the Code throughout the financial year and up until the date of this report, except as explained below.

Audit, Risk and Remuneration Committee Membership (Code Provisions 24, 25 and 32)

The membership of these committees comprises a majority of Independent Directors, however two Institutional Directors are also members. A Memorandum of Understanding between the Group and its Shareholder makes it clear that the Shareholder expects these committees to retain the independence and autonomy necessary to carry out their respective responsibilities under their applicable terms of reference.

Shareholding requirement for Directors (Code Provision 36)

The Group has not adopted a formal policy regarding post-employment shareholding requirements for Directors given leaver provisions in existing incentive arrangements.

Executive pensions (Code Provision 38)

Executive Directors may participate in the Group's workplace pension arrangement or receive a cash allowance in lieu (in full or part) of pension contributions. Each Executive Director currently receives a pension contribution and/or allowance to a combined value of 15% (8% wider workforce with no cash equivalent) of salary per annum. The remuneration approach is reviewed each year and consideration is given to market practice and industry guidance.

Where required, sections of the FCA's Disclosure and Transparency Rules have been applied in line with obligations in relation to the Group's listed debt.

The Board

The Board takes account of the views of the Group's Shareholder, Marlin Bidco Limited, and has regard to wider stakeholder interests and other relevant matters in its discussions and decision-making. The Board recognises that stakeholders' interests are integral to the promotion of the Group's long-term sustainable success. Further information about how the Board considers the interests of its stakeholders can be found on pages 44 to 47.

A Framework Agreement is in place with the Shareholder which includes a formal schedule of matters reserved for the Board and those matters which require recommendation to the Shareholder for approval. This document is supported by a Memorandum of Understanding, which preserves the Board's independence when making significant decisions. The Board delegates specific powers for some matters to Board committees, with the outputs from each committee meeting reported to the Board regularly, thus ensuring the Board maintains the necessary oversight. More detail on the committees and their work is described in the separate committee reports on pages 66 to 82.

Composition, Board balance and time commitment

The Board currently consists of ten members, namely the Chairman, five Independent Non-Executive Directors, two Executive Directors and two Institutional Directors. Biographical details of all Directors are on pages 53 to 55.

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

The Board considers that the balance of skillsand experience is appropriate to the requirements of the Group's business and that the balance between Executive and Independent Non-Executive Directors allows it to exercise objectivity in decision-making and proper control.

Each member of the Board has had access to all information relating to the Group, the advice and services of the Company Secretary (who is responsible for ensuring that governance procedures are followed) and, as required, external advice at the expense of the Group.

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

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

Meetings and attendance

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

The Board and Board committees held a number of scheduled meetings during 2023 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. The Company Secretary and/or his deputy attended all Board meetings and he, or his deputy, attended all Board committee meetings. The table below sets out the attendance by Directors at scheduled Board and Board committee meetings (of which they were members) during 2023.

	Number of scheduled meetings attended[1]				
	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination and Governance Committee
John Callender (Chair)[2]	7/7	–	–	4/4	3/3
Marcelino Castrillo[3]	7/7	–	–	–	–
Dylan Minto[4]	7/7	–	–	–	–
Lan Tu	7/7	6/7	6/6	4/4	3/3
Janet Connor[5]	6/7	7/7	5/6	–	1/2
Lindsey McMurray	7/7	3/7	5/6	3/4	2/3
Cédric Dubourdieu	4/7	2/7	3/6	3/4	3/3
Paul Lawrence	6/7	5/7	6/6	4/4	3/3
Andrew Didham[6]	7/7	7/7	6/6	–	2/2
Michele Turmore	7/7	6/7	6/6	4/4	3/3

The attendance above reflects the number of scheduled Board and committee meetings held during 2023. During the year there were also a number of ad-hoc Board and committee meetings to deal with matters arising outside of the usual meeting schedule. The majority of Directors made themselves available at short notice for these meetings.

1 Meetings were held from January to December 2023.
2 John Callender attended six of seven Audit Committee meetings and five of six Risk Committee meetings in 2023.
3 Marcelino Castrillo attended each Audit, Risk, Remuneration and Nomination and Governance Committee meeting in 2023.
4 Dylan Minto attended each Audit Committee meeting and four of six Risk Committee meetings in 2023.
5 Janet Connor was appointed as a Member of the Nomination and Governance Committee in May 2023, and was therefore eligible to attend two meetings.
6 Andrew Didham was appointed as a Member of the Nomination and Governance Committee in May 2023, and was therefore eligible to attend two meetings.

Board effectiveness review

The Board carries out a review of the effectiveness of its performance every year. The review is externally facilitated every three years, and this was last carried out in 2022. The 2023 review was carried out internally.

Progress against 2022 actions

Set out below is the progress made against actions identified through the previous externally facilitated Board effectiveness review. All actions have now been completed.

Action	Progress
More time should be scheduled for Non-Executive Directors to meet with each other and with the Chief Executive Officer.	The Chair has held regular meetings during the year with each of the Non-Executive Directors and with the Chief Executive Officer. There have also been regular opportunities for the Board to meet privately with the Chief Executive Officer. Additional time has also been created for Non-Executive Directors to meet with each other, including during Board dinners.
Agenda time to be developed to facilitate discussion and allow all perspectives to be considered.	Board agendas and timings were reviewed and adjusted during 2023 to include more time for debate and more opportunities for deep dives and demonstrations. The Chairman meets regularly with the Non-Executive Directors to ensure that their views and perspectives are considered, in addition to providing opportunities during Board and committee meetings for challenge and debate to take place.
Ensure that more time is allowed to enhance customer and market insight and understanding the competitive landscape in more depth.	Customer and market insight has been further developed during 2023, including all customer insight work being consolidated within one team. The Board discusses customer and market insights at every Board meeting.
Further extend the focus on executive succession and talent development, including widening the membership of the Nominations and Governance Committee to include all Non-Executive Directors.	The Nomination and Governance Committee membership was expanded in March 2023 with the addition of Janet Connor and Andrew Didham. The Committee has continued to develop its focus on executive succession planning and receives an update on this at each of its meetings.

2023 internally facilitated effectiveness review

At the end of 2023, an internally facilitated board effectiveness review was led by the Chairman, supported by the Company Secretary, which focused on the undernoted themes:

Internal evaluation themes

- Strategy, challenges and culture
- Board composition, skills and succession planning
- Board dynamics and engagement
- Governance and meeting administration

The review concluded that the Board and its committees continue to operate effectively. There were no specific new actions arising from the review, however, the Board recognised that it was important that it continued to develop and adapt to support the Group's strategic aims. It is intended that a further internal review will take place for 2024. The Board has committed to ensuring that future internal reviews continue to be aligned to both developing best practice and the Group's values.

Structure of the Board, Board committees and Executive Management

The diagrams on pages 60 to 61 summarise the role of the Board, its committees and the responsibilities of the Chairman, the Senior Independent Director, the Non-Executive Directors, the Chief Executive Officer, and the Executive Committee. The Board and Board committees have unrestricted access to Executive Management and external advisors to help discharge their responsibilities.

The Board and Board committees are satisfied that, in 2023, sufficient, reliable, and timely information was received to enable them to perform their responsibilities effectively. Each committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately. The Board committees' terms of reference can be found at: **shawbrook.co.uk**

Board

Leadership
The Board has clear divisions of responsibility and seeks the long-term sustainable success of the Group.

Stakeholder engagement
The Board organises and directs the Group's affairs in a way that it believes will help the Group succeed for the benefit of its Shareholder and in consideration of the Group's wider stakeholders. More information about the Group's stakeholders can be found on pages 44 to 47.

Operations
The Board supervises the Group's operations, with a view to ensuring that they are effectively managed, that effective controls and IT systems are in place and that risks and operational resiliency are assessed and monitored appropriately.

Financial performance
The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results and levels of capital and liquidity against them.

Strategy
The Board oversees the development of the Group's strategy, and monitors performance and progress against the strategic aims and objectives.

Culture and purpose
The Board develops and promotes the collective vision of the Group's purpose, culture, values, and behaviours.

Information and support
The Board accesses assistance and advice from the Company Secretary. The Board may seek external independent professional advice at the Company's expense, if required to discharge its duties.

Board committees

The Audit Committee
- Monitors the integrity of the Group's external financial reporting, including review and challenge of the critical accounting estimates and judgements.
- Oversees and challenges the effectiveness of the Group's financial controls.
- Monitors the work and effectiveness of the Group's internal and external auditors.
- Ensures whistleblowing policies remain adequate and effective to support and encourage employees to raise confidentially any concerns of impropriety.

The Risk Committee
- Provides oversight and advice to the Board in relation to current and potential future risk exposures of the Group and the future risk strategy, including determination of risk appetite and tolerance.
- Responsible for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within the Group.

The Remuneration Committee
- Oversees how the Group implements its remuneration policy.
- Monitors the level and structure of remuneration arrangements for the Board, Executives and material risk takers, approves share incentive plans and recommends them to the Board and Shareholder.

The Nomination and Governance Committee
- Reviews the Board's structure, size, composition, and balance of skills, experience, independence and knowledge of the Directors.
- Leads the process for Board appointments and Senior Management Function holder appointments and makes recommendations to the Board.
- Oversees and ensures that adequate provision is made for succession planning.
- Oversees and monitors the corporate governance framework of the Group.
- Reviews and monitors the Group's approach to subsidiary governance.

Board and Executive Management roles

Each Director brings different skills, experience and knowledge to the Group, with the Non-Executive Directors contributing additional independent thought and judgement. There is a clear division of responsibilities between the Chairman, Chief Executive Officer and Senior Independent Director and a summary of these responsibilities can be found at **shawbrook.co.uk**. Their roles have been clearly defined in writing and agreed by the Board.

The Chairman

- Guides, develops and leads the Board, ensuring its effectiveness in all aspects of its role as well as being responsible for its governance.
- Helps to ensure effective communication and information flows with key stakeholders (such as employees, regulators and investors).
- Sets the tone for the Group and ensures effective relationships between Management, the Board and stakeholders.
- Helps to ensure effective communication and flow of information between Executive and Non-Executive Directors.
- Chairs the Board and Nomination and Governance Committee.

The Senior Independent Director

- Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary.
- Is available to the Shareholder if they have any concerns, which the normal channels of Chairman, Chief Executive Officer or other Executive have failed to resolve, or for which such contact is inappropriate.
- Leads the planning for the succession of the Chairman of the Board.
- Meets with the other members of the Board to appraise the Chairman's performance.
- Provides feedback to the Chairman, Shareholder and Executive Directors on the Non-Executive Directors' views.

The Non-Executive Directors

- Provide constructive challenge to Executive Management and bring experience to the Board's discussions and decision-making.
- Monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board.
- Ensure the integrity of financial information and ensure that the financial controls and systems of risk management are effective.
- Led by the Senior Independent Director, the Non-Executive Directors are also responsible for evaluating the performance of the Chairman and Senior Management.

The Chief Executive Officer

As authorised by the Board, the Chief Executive Officer manages the Group's day-to-day operations and delivers its strategy. The Chief Executive Officer delegates certain elements of his authority to members of the Executive Committee to help ensure that senior executives are accountable and responsible for managing their respective businesses and functional units. The Chief Executive Officer chairs the Executive Committee, which meets no less than three times a month.

The Executive Committee

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

- Customer Operations and Service Support Director
- Chief Financial Officer
- Chief Risk Officer
- Chief Technology Officer
- Chief Product Officer
- Head of Enterprise
- Managing Director, Consumer
- General Counsel
- Chief People and Marketing Officer

The Executive Committee

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

There are currently ten members of the Executive Committee, (including the Chief Executive Officer) and their biographical details can be viewed on the Group's website at **shawbrook.co.uk**

To discharge its duties, the Executive Committee has operated five executive level committees. Details of these executive level committees and their responsibilities are set out below.

Environment, Social and Governance Sub-Committee (ESG)

Purpose

The ESG Sub-Committee has the primary responsibility for overseeing the development, implementation and monitoring of the Group's ESG strategy. It reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The ESG Committee meets on a quarterly basis and is chaired by the Chief of Staff. Other key members are; the Senior ESG Manager, Chief Prudential Risk Officer, Group Company Secretary, Group Marketing Director, Deputy CFO, Director of Strategy – Enterprise, Director of Specialist Lending – Real Estate, Head of Strategy -Consumer, Talent and D&I Lead and the TML Senior Compliance Manager.

Senior Managers and Certification Regime Sub-Committee (SMCR)

Purpose

The SMCR Sub-Committee has the primary responsibility for overseeing the management and operation of the Senior Managers and Certification Regime framework within the Group. It reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The SMCR Committee meets on a six-weekly basis and is chaired by the Head of Compliance and Ethics with membership comprising of; the Chief Compliance Officer, Group Company Secretary, Group Head of Reward and Senior Compliance Manager.

Asset and Liability Committee

Purpose

The Asset and Liability Committee oversees asset, liability and other solvency risks, specifically market risk, treasury wholesale credit risk, liquidity risk and capital risk. It reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The Asset and Liability Committee meets monthly and is chaired by the Chief Financial Officer, or either of the Chief Executive Officer or Chief Risk Officer as their alternate, each of whom are members. Other key members are the Deputy Chief Financial Officer, Group Treasurer, Head of Financial Planning and Analysis, Head of Financial Control and Head of Market and Liquidity Risk.

Enterprise Product Sub-Committee

Purpose

The Enterprise Product Sub-Committee has the primary responsibility for overseeing the design, development and ongoing management and monitoring of products intended for customers within the Enterprise franchise. It reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The Enterprise Product Sub-Committee meets monthly and is chaired by the Director of Strategy. Other key members include the Head of Enterprise, the Enterprise Group Risk Director, the Head of Product, the Director of Delivery and Head of Financial Planning and Analysis.

Consumer Strategy and Product Sub-Committee

Purpose

The Consumer Strategy and Product Sub-Committee has the primary responsibility for overseeing the design, development and ongoing management and monitoring of products intended for customers within the Consumer franchise. It reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The Consumer Strategy and Product Sub-Committee meets monthly and is chaired by the Head of Strategy. Other key members are; the Product and Strategy Manager, Chief Product Officer, Consumer Group Risk Director and Senior Marketing and Strategy Manager.

Product Sub-Committee

Purpose

The Product Sub-Committee has the primary responsibility for reviewing, discussing and approving spending of budget towards product or technology initiatives. The Sub-Committee reports and escalates to the Executive Committee, which appoints its members.

Frequency and membership

The Product Sub-Committee meets on a weekly basis and is chaired by the Chief Product Officer. Other key members include the Chief Technology Officer, Deputy Chief Financial Officer, Chief Prudential Risk Officer and the Chief Compliance Officer.

In June 2023 the Executive Committee approved changes to replace the Group Risk Management Committees with a single Executive Risk Committee, supported by second line oversight committees covering Credit; Operational Risk & Third Party; Conduct & Compliance; Financial Crime; and Model Risk. This restructure enables Executive Committee members to focus on escalations and risk appetite breaches, and to discuss emerging risks and mitigating actions across all principal risks. In order to maintain independence, the Executive Risk Committee reports directly to the Board Risk Committee.

Board meetings and activity in 2023

Board meetings

The activities undertaken by the Board in 2023 were intended to help promote the long-term sustainable success of the Group.

The scheduled Board meetings focused on five main themes in 2023:

- **Strategy and execution,** including approving and overseeing the Group's key strategic targets and monitoring the Group's performance against these targets; reviewing and approving key projects aimed at developing the business; and reviewing the strategy of individual franchises.
- **Financial performance,** including setting financial plans, annual budgets and key performance indicators and monitoring the Group's results against them; approving financial results for publication; and monitoring and approving the approach to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).
- **Risk management, regulatory and other related governance,** including reviewing and agreeing the Group's key policies; scanning for future risks; setting risk appetites; reviewing the Group's solvency position and forecast; and monitoring the Group's approach to financial crime and climate change. The Board also approved the approach to the Recovery Plan and Resolution Pack. Additionally, the Board reviewed and approved the approach to implementation and embedding of the FCA's Consumer Duty.
- **Spotlights,** including deep dive sessions on Consumer Duty, data, digital strategy, climate disclosures and the deposit and liability strategy.
- **Board and Board committee governance,** including receiving reports from the Board's committees; updating terms of reference for the committees; and approving the refreshed membership for the Nomination and Governance Committee.

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

Board Strategy Day

The Board sets aside time each year outside the annual Board calendar to give the Directors the opportunity to focus solely on strategic matters relating to the Group. In November 2023, the Board, Executive Management and representatives of the Shareholder met to discuss key themes on the financial plans of the Group, the competitive landscape, inorganic opportunities and the Group's future strategy.

Board effectiveness review

During the reporting period, an internal Board effectiveness review was conducted, focusing on Board performance in 2023. More information about the nature and outcomes of this review are on page 58.

Conflicts of interest

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

Induction, training and professional development

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

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

Each year an annual Board training schedule is agreed. In 2023, the Board received training in respect of securitisations, asset class policies, the watchlist process and Consumer Duty.

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

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

Risk management and system of internal controls

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

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

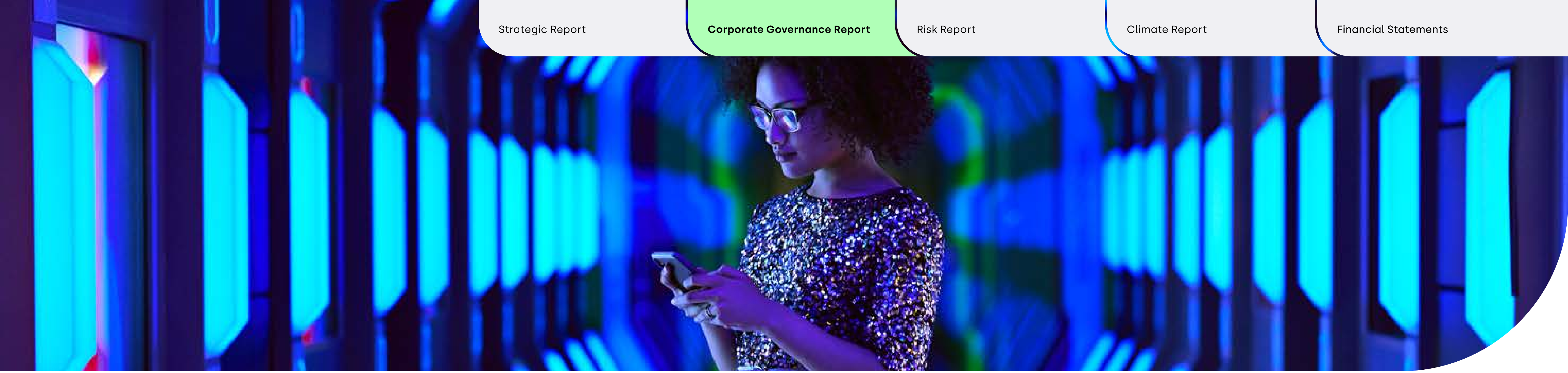
- established procedures, including those already described, which are in place to manage perceived risks;
- reports by Executive Management to the Audit Committee and Risk Committee on the adequacy and effectiveness of the Group's system of internal controls and significant control issues;
- under the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

The Group's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, the system of internal controls. During 2023, the Group continued to strengthen its risk management and internal controls capability to ensure that it remained relevant, appropriate and scalable to support the Group's objectives over the duration of the strategic plan and continued to invest further in its risk management capability. These included the appointment of a new Risk Director for the Retail Mortgage Brands, the appointment of a new Chief Credit Officer in the second line and continued enhancements to financial crime controls.

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

Shawbrook Bank Limited (the principal operating subsidiary of the Group) is subject to regulation by the PRA and the FCA and as such undertakes an ILAAP and ICAAP on an annual basis. The ICAAP process benefited from ongoing improvements during 2023; the process involves an assessment of all the risks that the Group faces in its operating environment, the likelihood of those risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk. This includes a thorough evaluation of how the Group would be impacted by severe, but plausible, periods of stress in its stress testing programme.

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



Cyber resilience

The Group recognises the importance of cyber resilience. The Board oversees the Group's cyber resilience approach and the level of investment into cyber security, providing robust challenge and scrutiny to ensure that the Group is adequately mitigating the threats it faces. The Board recognises that specialist knowledge is required in this area and therefore seeks relevant advice from third parties where appropriate. The cyber resilience strategy is routinely monitored by the Risk Committee and reviewed by the Board across a series of engagements throughout the year. These engagements consider the latest cyber threat intelligence assessments, the specialist nature of cyber threats, any outsourcing risks faced by the Group in this area and the protective controls we have in place via our Adaptive Security Architecture. This ensures that the strategy remains fit for purpose to combat the potential cyber threats the Group may face.

Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements of the Group's Executive Directors, certain individuals considered to be 'material risk takers' and the Group's Chairman. You can find out more about this in the Directors' Remuneration Report which starts on page 74.

Relationship with Marlin Bidco Limited (the 'Shareholder')

The Group is committed to maintaining a constructive relationship with the Shareholder, whilst not compromising the independence of the Board.

The Chief Executive Officer, Chief Financial Officer and other members of the Executive Committee meet with the Shareholder and their representatives on a regular basis outside of Board and committee meetings. The Shareholder also meets with the Chairman and has the option to meet with other Non-Executive Directors on request.

To ensure that governance arrangements with the Shareholder are formalised, a Framework Agreement and Memorandum of Understanding, outlining the responsibilities of each party, was established following the change in ownership. The Framework Agreement ensures that information flows are clear, that the independent judgement of the Board is not impacted and that the Board retains its oversight of the business in respect of strategy, performance, risk appetite and assessment of the control framework and governance arrangements. The Memorandum of Understanding seeks to support and protect the independence of the Board, particularly in relation to the appointment of Non-Executive Directors to the Board and its committees. As set out in the Framework Agreement, the Shareholder has appointed two Directors to the Board, both of whom are considered Institutional Directors.

The Group recognises the importance of ensuring effective communication with all of its stakeholders. This report, together with a wide range of other information, including financial reports and regulatory announcements are made available on the Investor section of the Group's website at **shawbrook.co.uk**

Other committees

The Board has delegated authority to its principal committees to carry out certain tasks as defined in each committee's respective terms of reference. The written terms of reference in respect of the Audit, Risk, Remuneration and Nomination and Governance Committees are available on the Group's website. In addition to the principal committees, the Board is supported by the work of the Disclosure Committee and the Acquisitions and Divestments Committee, which meet on an as needed basis.

Annual General Meeting

Shawbrook Group plc's Annual General Meeting will be held on 21 May 2024.

Audit Committee Report

"I am pleased to present the Audit Committee Report, which describes the work undertaken by the Committee to discharge its responsibilities. The Committee and its members bring together a diverse range of experience across disciplines including finance, audit, risk and business, with many years of experience operating across the financial services sector in line with the Code."

The Committee's annual work plan is framed around the Group's financial reporting cycle, which ensures that the Committee considers all matters delegated to it by the Board.

In discharging these responsibilities, the Committee has spent time considering the impacts on credit risk as a result of rising inflation and interest rates and on the critical accounting and auditing judgements, particularly relating to IFRS 9, fiar value through other comprehensive income (FVOCI), conduct provisions and securitisation transactions that occurred during the year. The Committee has considered the Group's governance of its expected credit losses model and continues to review all new guidance issued to ensure transparency in the financial statements.

The Committee continues to focus on the issues relevant to the Group's financial reporting and considers emerging trends and best practice. This includes overseeing the effectiveness of the Group's internal control framework to ensure it remains robust and fit for purpose, with particular focus given to its IT control environment. In addition, the Committee has considered, and continues to closely monitor, developments relating to future audit and corporate governance reform.

Andrew Didham
Chair of the Audit Committee

28 March 2024

Main activities during the year

Throughout the year, the Committee discussed a range of topics including financial reporting, internal controls and financial risk management, internal audit, external audit and whistleblowing (Speak Up). You can find out more about this in the following sections.

Financial reporting

The Committee considered the integrity of the Group's financial statements and all external announcements in relation to its financial performance. In 2023, this included the Group's 2022 Annual Report and Accounts and the 2023 Interim Financial Statements. Significant financial reporting issues and judgements were considered together with any significant accounting policies and proposed changes to them.

Membership, attendance, and responsibilities of the Committee can be found on pages 57 and 59.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk**

Significant areas of judgement

During 2023, the key judgement areas were largely unchanged from the previous year. This reflects the consistency of the Group's approach to financial reporting and that there were no significant changes to the business model. The main areas of focus were as follows:

Significant financial and reporting issue	How the Committee addressed the issue
Impairment losses of financial instruments	During the year, the Committee met and challenged the IFRS 9 judgements and models used to calculate the underlying expected credit losses and impairment recognition. This included reviewing the IFRS 9 judgements, post-model adjustments and macroeconomic assumptions used in the model to ensure that the modelled outcomes were reasonable and in line with guidance. The regulatory and accounting guidance issued also extends to transparency for external reporting and the Committee reviewed all external disclosure notes. The Committee also discussed reporting disclosures and best practice with the external auditor. The Committee also reviewed the movements in impairment coverage ratios and non-performing loan ratios throughout the year and concluded that these had been appropriately monitored during the year. The Committee concluded that the impairment provisions, including Executive Management's judgements, were appropriate. Refer to Note 8(a) of the Financial Statements for further details.
Provisions for customer remediation and conduct risk	The Group's Consumer Lending franchise is exposed to risk under Sections 75 and 140 of the Consumer Credit Act, in relation to any misrepresentations, breaches of contract or other failings by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Group. The Committee considered and reviewed papers from Executive Management at each meeting which detailed actual complaints received. At the half year a provision was raised in relation to Timeshare complaints and this was reviewed and updated for the full year. The Committee reviewed the key judgements that could impact the provision including whether the original supplier remained solvent, the current complaint rates, Financial Ombudsman Service (FOS) complaints and the expected average cost of redress. Additionally, the Committee considered the latest communications and publications by the FOS in relation to Timeshare as this is a new and developing area of redress across the market. The Committee also reviewed that the disclosure notes were appropriate.

Significant financial and reporting issue	How the Committee addressed the issue
Acquisition of subsidiary	The Committee considered the accounting and disclosures in relation to the acquisition of 100% of the share capital of Bluestone Mortgages Limited. The key area of judgment, during the initial recognition of the acquisition, was to determine the fair value of the net assets acquired. Judgements impact individual assets and liabilities and resulting goodwill recognised on acquisition in the statement of financial position, which in turn impacts upon how they are subsequently accounted for. The Committee approved the addition of the acquisition, as a new, one-off area of critical judgment for the 2023 reporting period only.
Fair value of debt instruments measured at fair value through other comprehensive income	The Group's loan book includes some mortgage loans that are measured at FVOCI. In order to value these loans, the Group makes use of 'unobservable inputs', which brings with it a level of estimation uncertainty. An 'unobservable input' refers to information that is not based on observable market data. To calculate the fair value of these loans, the Group used the discounted cash flow method. The significant assumption used in this calculation is the risk-adjusted discount rate, which is derived from cost of replacement assets based on period end closing swap rates. Changes in the assumptions applied could have a material impact on the calculated fair value of these loans.
Securitisations	Securitisations involve the transfer of customer loans to structured entities. In determining the accounting treatment to be applied for each securitisation transaction, complex assessments must be performed which necessitates the application of judgement. The Committee received accounting opinion papers from Executive Management on each securitisation transacted during the year. The papers outlined each transaction and its structure and compared this to the relevant accounting standards to confirm whether each transaction met the requirements to be de-consolidated or, if not, whether it would be consolidated into the Group as a subsidiary by virtue of control. The Committee concluded that the securitisations were accounted for appropriately based on the structure of each transaction.

In addition to the matters described above, the Committee considered papers on the impact of accounting standards changes, operating segments, large exposures and the performance of the external auditor. The Committee also discussed the changes proposed from the UK's corporate governance reform and any possible impacts on the Annual Report and Accounts which would be discussed once final guidance was issued in 2024.

Going concern and long-term viability

The Committee reviewed a paper from Executive Management setting out the assumptions underlying the going concern and viability statement as detailed in the statement on page 84. The Committee considered a wide range of information relating to present and future conditions, including the Group's current financial position, future projections of profitability, cash flows and capital resources. In addition, the Directors have considered the Group's risk assessment framework and the possible impacts from the top and emerging risks, as highlighted in the Risk Report, on the longer-term strategy and financial position of the business.

The Committee concluded that as both capital and liquidity forecasts remained within regulatory requirements over the going concern period of 12 months from the date of approval of the financial statements that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. The Committee reported accordingly to the Board and recommended the viability statement for approval as set out on page 151.

Fair, balanced and understandable

The Committee reviewed and concluded that the Annual Report and Accounts taken as a whole is fair, balanced, and understandable and provides enough information to enable the reader to assess the Group's position and performance, business model and strategy. When considering the Annual Report and Accounts, the Committee focused on the significant judgements and issues that could be material to the financial statements. This included the matters set out in the table on page 67. The Committee challenged the judgements being made and discussed these matters with the external auditor.

Internal controls and risk management

The Committee annually assesses principal risks and uncertainties on a financial control basis. Details of the risk management systems in place and principal risks and uncertainties are provided within the Risk Report which starts on page 87. The Group's system of internal control has been designed to manage risk and, whilst risk cannot be eliminated, the systems assist with the provision of reasonable assurance against material misstatement or loss.

The risk and internal audit functions review the extent to which the system of internal control is effective, is adequate to manage the Group's principal risks, safeguards the Group's assets and, in conjunction with the Company Secretary and the Group's legal and compliance functions, ensures compliance with legal and regulatory requirements.

Internal audit

The Committee reviews, challenges and approves the annual audit plan and audit methodology for internal audit and monitors progress against the plan during the year. The Chief Internal Auditor agrees the programme of work and reports directly to the Committee on its outcomes. The Committee also oversees that internal audit has unrestricted access to all Group documentation, premises, functions, and employees as required to enable it to perform its functions.

On behalf of the Board, the Committee undertakes regular reviews of the effectiveness of the Group's internal control arrangements as part of its audit programme.

The Committee reviewed and challenged the proposed approach and areas of focus of Group Internal Audit. The internal audit function has continued to mature during the year, with additional headcount supplementing its co-sourced model and delivery of various transformation and innovation activities. Internal audit provided the Committee with coverage of important topics such as customer journeys, cloud strategy, operational resilience, Consumer Duty and financial crime, reflecting the Group's strategic priorities.

Internal audit delivered 23 audits from the 2023 internal audit plan of varying size and complexity. Internal audit reports are circulated to the Committee members, with the Chief Internal Auditor reporting at each Committee and the Committee monitoring progress against actions identified in those reports.

The Committee monitors and reviews internal audit's effectiveness and independence using feedback obtained from the Board and other stakeholders. The Chief Internal Auditor confirms to the Committee, on an annual basis, that internal audit remains independent. Following each audit engagement, client feedback is obtained to assess the function's performance.

Additionally, the Committee ensures that there are sufficient resources available to internal audit to complete its remit. The appointment and removal of the Chief Internal Auditor is the responsibility of the Audit Committee.

External audit

The Committee oversees the relationship with its external auditor, KPMG LLP, including the engagement terms, remuneration, the audit effectiveness and auditor independence and objectivity. The Committee also considers the audit plan and audit strategy (including the planned levels of materiality). The external auditor attends Committee meetings as appropriate. The Committee members have the opportunity to meet privately with the external auditor upon request.

KPMG LLP was first appointed as the Group's external auditor in 2011. The Committee acknowledges the provisions contained in the Code in respect of audit tendering and, following a tender process for external audit services undertaken in 2017, the Committee concluded that KPMG LLP should be retained as the Group's external auditor. As at the date of this report, there are currently no plans to conduct another tender for external audit services.

During the year, the Committee received regular detailed reports from the external auditor, including formal written reports dealing with the audit objectives and reports on the auditor's qualifications, expertise, and resources; the effectiveness of the audit process; procedures and policies for maintaining independence; and compliance with the ethical standards issued by the Auditing Practices Board. The external auditor's management letter is reviewed, as is Executive Management's response to issues raised, and progress is monitored against actions identified in those reports. The Committee monitors the provision of non-audit services by the external auditor throughout the year, to ensure compliance with the non-audit services policy.

The Committee is responsible for reviewing the independence of the Group's external auditor and monitors the latest ethical guidance regarding audit partner rotation. KPMG LLP has a policy of partner rotation, which complies with regulatory standards.

Maintaining an independent relationship with the Group's external auditor is a critical part of assessing the effectiveness of the audit process. The Committee has a formal policy on the use of the auditor for non-audit services. It ensures that work is only awarded when permissible and if the external auditor's knowledge, skills or experience are a decisive factor and therefore clearly preferred over alternative suppliers. Each year, the Committee receives and reviews an analysis of all non-audit work and reviews the level of audit and non-audit fees paid to KPMG LLP. This oversight ensures that significant assignments are not awarded without first being subject to the scrutiny of the Committee. The fees paid to KPMG LLP for audit and non-audit services are set out in Note 15 of the Financial Statements.

The Committee is satisfied with the performance of the external auditor in 2023 and the policies and procedures in place to maintain their objectivity and independence.

The effectiveness of the external auditor was assessed by way of a questionnaire during the reporting period. The questionnaire, which sought the views of members of both the Committee and Executive Management, focused on, amongst other things, the scope of the audit, as well as the external auditor's technical expertise, governance and independence. This assessment concluded that the external audit process was effective.

The Committee has recommended to the Board that KPMG LLP be re-appointed as the Group's external auditor at the forthcoming 2023 Annual General Meeting, at which resolutions concerning the re-appointment of KPMG LLP and its audit fee for 2024 will be proposed to our Shareholder.

During the year, the Committee held at least one scheduled meeting with the External Auditor and Internal Auditor privately.

Speak Up

The Committee annually reviews the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Where appropriate, the Committee also reviews reports relating to areas of concern, including anonymised cases, to ensure arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Committee approved a new 'Speak Up' policy to replace the Whistleblowing policy to encourage employees to raise concerns when something does not feel right and provide assurance that they can feel safe doing so. The Committee probed Executive Management and was satisfied that the process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements.

Priorities for 2024

The key priorities in 2024 include:

- the impacts of the UK corporate reporting and audit reform;
- reviewing the effectiveness of the co-sourced internal audit model;
- oversight and review of the 2024 internal audit plan including IT effectiveness and third-party audits;
- ongoing review and monitoring of all conduct issues and provision adequacy; and
- ensuring that the Group's financial reporting complies with all legislative requirements and accounting standards.

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable, and timely information to perform its responsibilities effectively.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 28 March 2024.

Andrew Didham
Chair of the Audit Committee

Risk Committee Report

"I am pleased to present the Risk Committee Report for the year ended 31 December 2023. The Committee's key role is to provide oversight of and advice to the Board on the management of risk across the Group, balancing the agenda between risk exposure, emerging risks and future risk strategy."

The Committee provided oversight of the operation of the Group's Risk Management Framework (RMF) and the continued collaboration between the first and the second line risk management teams, with regular updates on progress against respective deliverables. This included the oversight of performance against risk appetite and any resulting actions required throughout the year.

In order to support the Committee a number of additional Committee working groups were held during the year, with these meetings ensuring sufficient time was allocated to meet both the regulatory agenda and oversee the risk management response to both existing and emerging risks. These working groups supported the Committee in: the review and recommendation of risk appetite proposals; the review of components of the ICAAP, ILAAP, and Recovery Plan; operational resilience assessment; and the delivery of the Group's plans to implement the Consumer Duty.

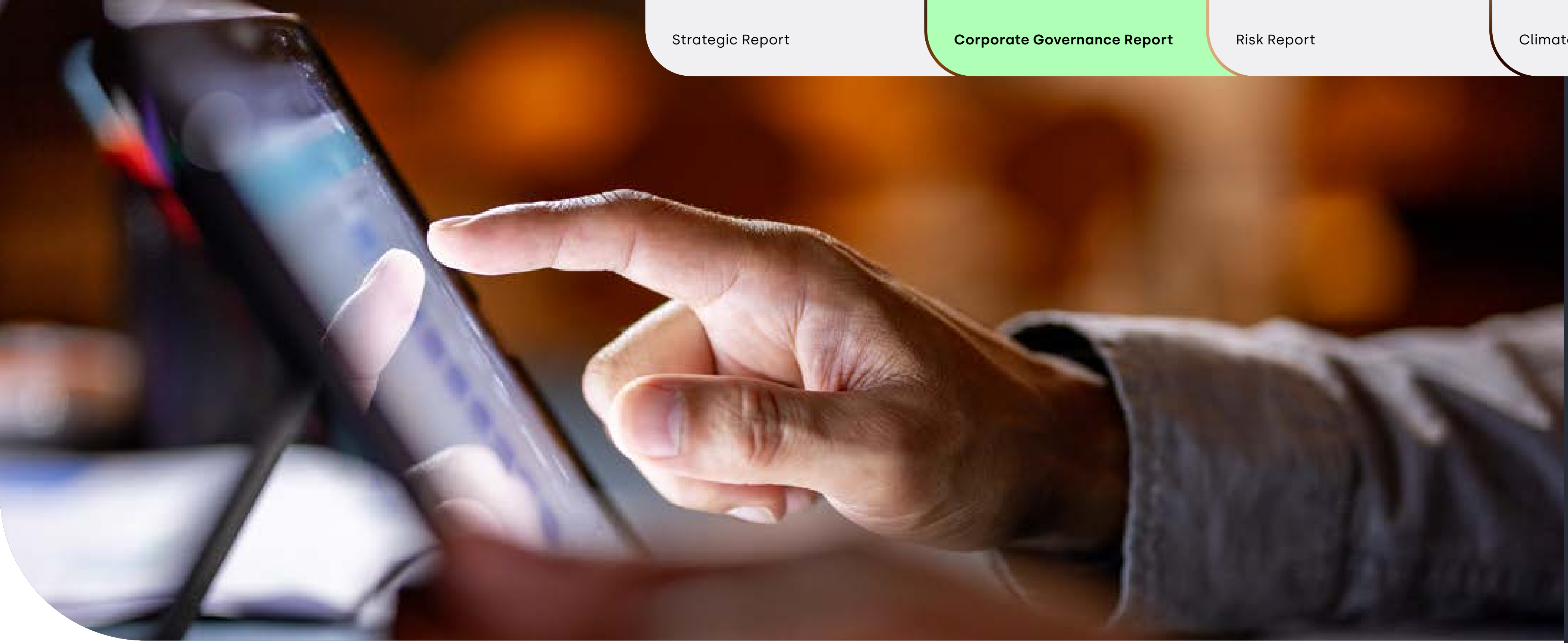
During the year, the Committee continued to focus on the oversight of existing risks, whilst also ensuring emerging risks were appropriately identified and addressed. The RMF supports the management of new risks and controls and embeds an appropriate culture across the Group, by providing consistent challenge to the suitability of scenarios and stress testing given the challenging macroeconomic environment and resultant impact on the Group's risk profile and appetite. This included oversight of the management of Interest Rate Risk in the Banking Book and the adequacy of the risk appetite in relation to the changing economic environment. To ensure that the RMF remains capable of managing future growth and the associated risks, the Risk Committee reviewed and approved a new taxonomy that included ten principal risks.

The Committee also monitored the performance of the Asset and Liability Committee, ensuring the Group maintained appropriate levels of liquidity through 2023. The Committee also reviewed the Vulnerable Customer Policy. The Group's approach to cyber resilience and information security was reviewed to ensure it remained suitable for the size and scale of the Group and prevailing risks.

The Committee reviewed and recommended to the Board for approval the annual review of the RMF and considered the 2023 risk deliverables across both the first and second lines of defence risk teams and reviewed progress against the risk deliverables during the year. The Committee regularly considered external challenges, including those arising from climate risk, the embedding of the Group's approach to climate risk within the broader ESG agenda and regulatory changes. The Committee recommended to the Board for approval: the annual Money Laundering report, the annual report from the Group's Data Protection Officer, the annual review of the Group Risk Appetite, and the ICAAP, ILAAP and Recovery Plan. In the context of the Recovery Plan the Committee oversaw the completion of an externally facilitated fire drill exercise.

Membership, attendance, and responsibilities of the Committee can be found on pages 57 and 59.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk**



The Committee continues to focus on the continued enhancement and effectiveness of financial crime controls and the performance of, and reporting from, the Money Laundering Reporting Officer who oversees the Group's financial crime controls. The Committee also regularly received updates on the operational resilience framework.

The Committee held several sessions during the year to understand the way in which the Group was preparing for the implementation of the FCA's Consumer Duty. As part of this, the Committee also considered the Vulnerable Customers Policy and a number of updates in relation to the Group Affordability Policy to ensure that the way in which the Group assessed affordability remained appropriate given the impact of rising inflation and interest rates on customers' disposable incomes. The Committee received reports on the Group's approach to product transfers in response to the rapid interest rate environment impacting affordability for customers in the Retail Mortgage Brands businesses. The Committee also received reports on forward-looking early warning indicators and the integration of new external tools to support the early identification of potential problem loans. As part of this, the Committee received reports on the Group's preparedness for a deterioration in the economic outlook, including the adequacy of the approach to operational resilience and customer facing resources. The Committee also received reports on the implementation of the Group's new Governance, Risk and Controls system that will bring together risks, controls and assurance into one ecosystem, covering all Principal Risks.

The Committee continues to oversee the impact of the continuing economic uncertainty, particularly the primary and secondary impacts of the conflict in Ukraine, and the continued pressure on consumers' real incomes and impact on small to medium enterprises through higher input prices and supply chain risks. During the year the Committee oversaw the delivery of enhancements to the RMF, including impacts arising from changes in regulation and the risk review of the annual budget process. In 2024, the Committee will monitor and assess the risks facing the Group as the economic environment evolves.

Paul Lawrence

Chair of the Risk Committee

28 March 2024

Main activities during the year

Risk monitoring and oversight

During 2023, the Committee considered a wide range of risks facing the Group, both existing and emerging, across all areas of risk management. At each scheduled meeting, the Committee received regular reports from the Chief Risk Officer detailing the key activities undertaken by the Group Risk function to oversee the embedding of risk management across the Group and was provided with outputs of regular risk monitoring and details of specific risk issues. The Committee has also received details of the Group's current and forward-looking capital solvency position and monitored performance against the Group's risk appetite statement.

Risk management and controls

Throughout the year, the Committee monitored the effectiveness of the Group's risk management and control systems and reviewed their effectiveness through the RMF. The RMF sits across the business with a particular focus on risk monitoring and control. The Committee received and reviewed an attestation of compliance with the RMF from the Chief Risk Officer, divisions and functions, which included a capability assessment to ensure the Group has the resources it needs to deliver its objectives.

Top and emerging risks

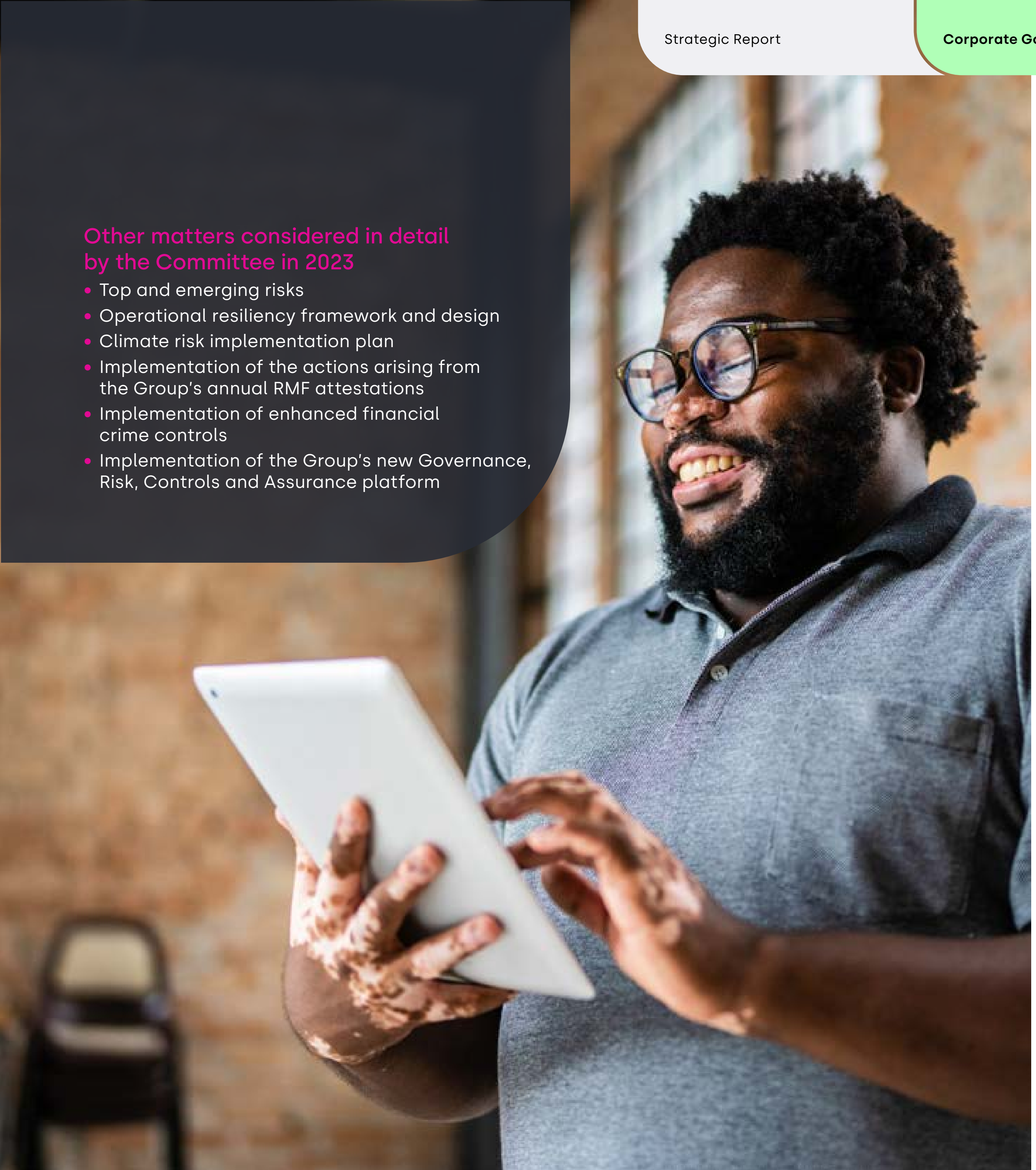
The Group's top and emerging risks are considered regularly by the Committee. Further information about the Group's top and emerging risks can be seen in the Risk Report starting on page 87.

Significant risks and primary areas of focus

During 2023, the following significant risks and primary areas of focus were considered by the Committee:

Significant risks and primary areas of focus	Risk Committee review
Group risk management	• The Committee reviewed the 2023 Annual Risk Plan, which included the key areas of focus for the first and second line risk functions. • The Committee received regular summaries of the overall risk profile of the Group through the Chief Risk Officer's Report. • The Committee reviewed the top and emerging risks for the Group for inclusion in the Annual Report and Accounts. • The Committee reviewed the effectiveness of the RMF throughout the year through the Chief Risk Officer's Report and updates on the Risk Plan. • The Committee oversaw progress of the Climate Risk Implementation Plan, progress on the maturity and effectiveness of the Financial Crime framework.
Board risk appetite	• The Committee reviewed progress on the annual review of the Board's risk appetite, including material risk appetite limits. • The Committee received regular updates on the evolving risk appetite framework, including the provision of a monthly risk appetite dashboard that accompanies the Chief Risk Officer's Report at each meeting.
Credit risk	• The Committee received a number of updates to the Group Affordability Policy to ensure that it remained appropriate to the environment. • The Committee received updates on policy changes, reflecting updates and enhancements to the Group Policy Framework. • The Committee received updates to Credit Risk Appetite during the cost-of-living challenge, including updates on capacity in collections in advance of any potential increase in arrears and potential problem loans. • The Committee received regular updates on targeted portfolio reviews, including any actions taken.

Significant risks and primary areas of focus	Risk Committee review
Operational risk	• The Committee received regular reports across the spectrum of operational risks, information security and Cyber risk resilience. • The Committee reviewed and recommended to the Board an updated list of Important Business Services and associated Impact Tolerances and the Group's Operational Resilience Framework as part of the Group's operational resiliency programme. The Committee also reviewed the outcome of testing of impact tolerances. • The Committee also received updated policies in relation to the risk management approach to third parties.
Conduct, legal and compliance risk	• The Committee continually reviews the Group's risk management approach to reflect the regulatory and legal environment in which the Group operates. • The Committee received updates on various conduct risk and legal liability risk matters. • The Committee received regular updates on the Group's investment in financial crime controls and received the annual Money Laundering Reporting Officer's report and the annual Data Protection Officer's report. • The Committee received regular updates on the implementation of the Consumer Duty including managements attestation of compliance and ongoing monitoring arrangements. • The Committee reviewed enhancements to the Group's Vulnerable Customers Policy and associated management information.
Liquidity and market risk	• The Committee reviewed and recommended to the Board approval of the ILAAP. • The Committee reviewed and recommended changes to the Group's Interest Rate Risk in the Banking Book appetite.
Stress testing and capital	• The Committee reviewed and recommended to the Board approval of the ICAAP. The Committee also reviewed a number of alternative scenarios through which to assess the strategy and business model. • The Committee reviewed and recommended to the Board the approval of the Recovery Plan and received a report on the feedback arising from a fire drill test. • The Committee reviewed a recommendation from management on its proportionate approach to the implementation of the model risk principles for banks, that was published in early 2023.



Other matters considered in detail by the Committee in 2023

- Top and emerging risks
- Operational resiliency framework and design
- Climate risk implementation plan
- Implementation of the actions arising from the Group's annual RMF attestations
- Implementation of enhanced financial crime controls
- Implementation of the Group's new Governance, Risk, Controls and Assurance platform

Priorities for 2024

The key projects that the Group risk function is accountable for delivering in 2024 include:

- delivery of compliance with the new model risk principles for banks where it is appropriate to do so;
- leveraging the Group's analytical environment in the Cloud to leverage data and technology as a primary control and support use cases on machine learning and AI;
- enhancements to strengthen the integration of risk, controls and assurance alongside the migration to a new governance, risk and compliance system;
- oversight of planned phases of testing of the financial crime control environment;
- oversight of the economic environment given the cost-of-living crisis and increasing costs for SMEs;
- oversight of enhancements to the cyber resilience infrastructure;
- oversight of the vulnerable customer road map;
- oversight of the embedding of the consumer duty;
- oversight of outsourcing controls and associated third party risk management;
- delivery of operational resilience enhancements and operational continuity in resolution; and
- delivery of the climate risk implementation plan, including further quantitative scenario testing, including SMEs.

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the year, the Committee held at least one scheduled meeting with the Chief Risk Officer privately.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 28 March 2024.

Paul Lawrence
Chair of the Risk Committee

Directors' Remuneration Report

"I am pleased to present the Directors' Remuneration Report for the year ended 2023."

As outlined in the Chairman's and Chief Executive Officer's Statements, 2023 was another positive year for Shawbrook where the Group was able to demonstrate the strengths of its diversified offering, delivering long-term sustainable value for all stakeholders. Against a backdrop of heightened market volatility, the Group delivered strong financial performance and maintained robust governance and risk management. Through investment in technology and talent, the Group was able to drive product and service innovations to support our customers whilst also maintaining a highly engaged workforce. The Group also delivered on commitments made to the communities in which we operate through our ESG strategy. Following the financial year end, the Committee assessed performance against financial and non-financial measures, alongside individual business area performance and risk alignment. This determined the overall bonus pool for 2023. Individual performance was taken into account to determine awards at an individual level.

In keeping with its terms of reference, during 2023, the Committee continued to oversee Shawbrook's approach to reward for its material risk takers as well as the wider workforce, informed by employee engagement feedback. The Group remains proud of the culture it has developed, whereby employees have the opportunity to develop their own careers internally, allowing them to progress both professionally and financially. The Committee also monitors and keeps abreast of any significant changes to the regulatory landscape, which for 2023 included the new Consumer Duty, removal of the bonus cap and, more recently, amendments to the remuneration rules and regulatory guidance applicable to smaller firms in the UK banking sector. Shawbrook seeks to protect and promote good outcomes for customers and our progress on embedding the new Consumer Duty was taken into account by the Committee when reviewing remuneration outcomes at year-end. It is currently intended that no immediate changes will be made to the remuneration framework in direct response to the removal of the bonus cap. The Committee does however keep the remuneration framework under continual review to ensure it appropriately supports the delivery of our strategy and good outcomes for all stakeholders, and this will be considered further in 2024.

The Group's Equality, Diversity and Inclusion initiatives continue to remain a key focus for the Board. We saw further improvements in our mean gender pay gap this year, which reduced from 37% to 34%, although the Committee recognises that there is still some way to go in terms of closing the gap. Following a repledging of our commitment to the Women in Finance Charter, the Committee is pleased to report that the Group is on track to meet its target of 30% of women in senior management positions by September 2024.

In line with normal practice, the Committee undertook a review of the 2024 bonus arrangements and ensured that the financial and non-financial performance measures were fully aligned with the Group's ongoing strategy. The 2024 bonus design will continue to involve the assessment of a balance scorecard of weighted financial and non-financial measures, including an assessment of risk, people, customer, strategy and ESG related outcomes.

Overall, the Committee is satisfied that the remuneration policy operated as intended during the year.

Michele Turmore

Chair of the Remuneration Committee

28 March 2024

Membership, attendance, and responsibilities of the Committee can be found on pages 57 and 59.

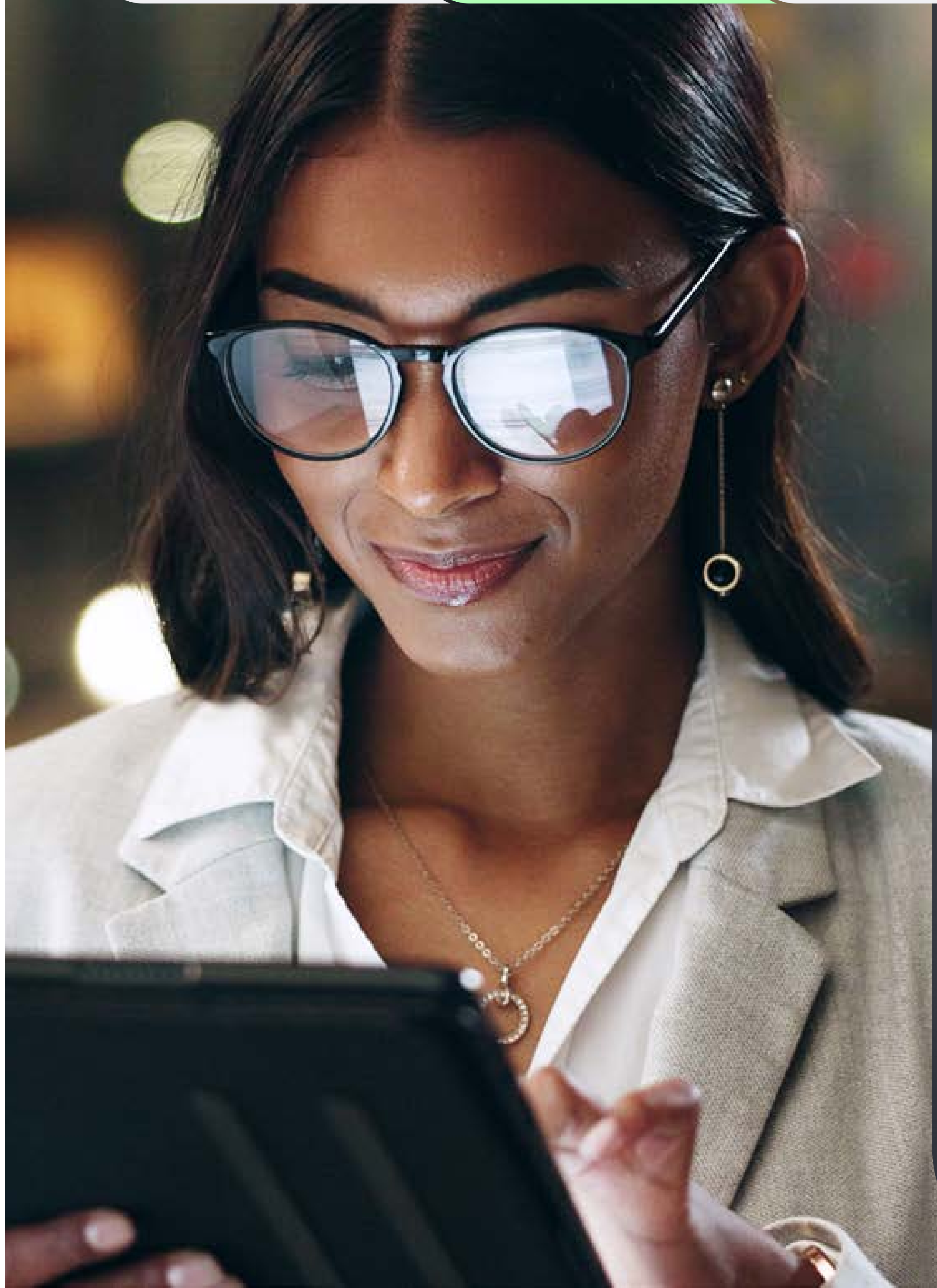
The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk**

Main activities during the year

The Committee met on four occasions during 2023. In addition to cyclical agenda items, the Committee reviewed remuneration arrangements for the wider workforce in the context of the economic climate, strategic initiatives and employee engagement feedback. The Committee also considered the impact of regulatory changes, including the Consumer Duty, on remuneration and a detailed review of progress against the Group's EDI agenda from a remuneration perspective.

Deloitte LLP provided independent advice to the Committee on all executive remuneration matters during the year. Deloitte LLP is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. During 2023, Deloitte also provided internal audit, risk advisory, share plan advisory, consulting and financial advisory services to the Group. The Committee is satisfied that the advice received from Deloitte LLP was objective and independent.

In line with the Framework Agreement and Memorandum of Understanding, the Shareholder has representation on the Committee. Where applicable, decisions are escalated through the Board to the Shareholder for approval.



Guiding reward principles

The Group seeks to reward its employees fairly for their contribution and motivate them to deliver the best outcomes for all stakeholders. This is underpinned by the following principles:

- Remuneration arrangements are designed to attract, retain, and motivate high calibre individuals who will assist the Group in meeting its strategy.
- Reward structures will be developed in alignment with the Group's strategy and promote long-term sustainable success, while meeting appropriate regulatory requirements.
- Remuneration will be determined within the Group's stated risk appetite defined as 'maintaining a balanced strategy to reward our employees for appropriate conduct and performance'. Safeguarding the right outcomes for customers is at the heart of this.
- There will be an appropriate mix of long-term and short-term variable pay arrangements in place, which will assist in driving the long-term security, soundness, and success of the Group.
- The long-term and short-term variable pay plans will be subject to appropriate performance measures, ensuring the right balance between these elements of the reward package.
- Remuneration outcomes will be determined with reference to total reward principles. For example, when making bonus decisions, the Group will take into account an employee's total aggregate remuneration.
- Eligibility for, and payment of, any remuneration will be communicated in a clear and transparent way for all colleagues and in a timely manner.
- Reward structures will be designed to avoid any conflicts of interests as set out in the Group's conflicts of interest policy. In this regard, employees in control functions will be remunerated independently from the performance of the business areas that they oversee. Furthermore, the Committee will be constituted in a way that avoids conflicts of interests and provides independent oversight of remuneration matters within the Group. No individual will be permitted to be present at the Committee when decisions are taken which concern their own remuneration.

The Group keeps its reward strategy, including the guiding reward principles, under regular review to ensure it continues to support the delivery of its strategic priorities. The Committee considers that the current framework appropriately addresses the following factors as set out in the UK Corporate Governance Code.

Clarity and simplicity	As a private company, Shawbrook is not required to produce a full Directors' Remuneration Report aligned to that of a UK-listed company. However, in the interests of transparency, the Committee provides voluntary disclosure of our remuneration policy and how this applies to Executive Directors.
Risk	As a financial institution, one of our guiding reward principles ensures that remuneration is determined within the Group's stated risk appetite defined as 'maintaining a balanced strategy to reward our employees for appropriate conduct and performance'. Safeguarding the right outcomes for customers is at the heart of this. Deferral under the annual bonus scheme and participation in the Management Incentive Plan (MIP) encourages a long-term focus. All incentive arrangements for material risk takers, including Executive Directors, are subject to malus and clawback provisions. Shawbrook has a formal risk adjustment policy which outlines how any risk adjustments (including through the application of malus and/or clawback) would be determined and applied.
Predictability	The remuneration policy table contains details of maximum annual bonus opportunity levels for Executive Directors, with actual bonus outcomes varying depending on the level of performance achieved. In terms of the MIP, value will only be delivered to participants if the value of the Group grows by reference to the achievement of stretching hurdles set relative to the Group's business plan. Payment under our incentive arrangements will be subject to the Committee's discretion.
Proportionality and alignment to culture	All eligible permanent and fixed-term employees are considered for an annual bonus, aligning reward to the overall financial and non-financial performance of the Group. Under the annual bonus scheme, the Committee assesses performance against a range of objectives, including ones related to our people, customers, risk, ESG and our strategy. This ensures that reward is not determined solely on financial performance but also drives behaviours consistent with Shawbrook's culture. The Committee has the discretion in circumstances of poor financial performance to reduce the bonus outcome, including potentially to zero.

Directors' remuneration policy

Shawbrook is not required to produce a Directors' Remuneration Report in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). However, for transparency the Board has produced the table below which summarises the key components of the Group's reward package and how these apply to the Executive Directors. No material changes were made to the structure of this package during the year.

Element	Purpose and link to strategy	Operation
Fixed elements of remuneration		
Salary	To provide a competitive level of base pay to attract and retain talent.	Base salaries are set with reference to the size and scope of the role, the external market as well as the skills and experience of the individual. The approach for the wider workforce is also taken into account. Salaries are normally reviewed on an annual basis.
Pension	To provide a competitive post-retirement benefit supporting the long-term financial wellbeing of employees.	Executive Directors may participate in the Group's workplace pension arrangement or receive a cash allowance in lieu (in full or part) of pension contributions. For 2023, each Executive Director received a pension contribution and/or allowance to a combined value of 15% of salary per annum.
Benefits	To provide a suite of competitive benefits to support the wellbeing of employees.	The Group offers a wide range of benefits to support our employees' health, financial and lifestyle needs. Benefits provided to our Executive Directors include (but are not limited to) private medical cover, life assurance and permanent health insurance. Additional benefits may be provided as reasonably required.

Element	Purpose and link to strategy	Operation
Variable elements of remuneration		
Annual discretionary bonus	To incentivise and reward the achievement of short-term financial and non-financial objectives which are closely linked to the Group's strategy. Deferral encourages long-term focus and risk alignment.	Annual bonus awards are determined with reference to financial, non-financial and individual objectives. Specific performance measures and objectives are reviewed on an annual basis to ensure they appropriately align to the Group's ongoing strategy. When finalising individual award levels, consideration is given to the overall performance of the Group, business area performance and individual performance against agreed objectives, including alignment with our purpose, experience principles and culture, as well as the outcome of the independent risk adjustment process. Poor financial performance can result in the bonus being reduced, including potentially to zero. The on-target opportunity for Executive Directors is 60% of salary per annum with a normal maximum opportunity of 120% of salary per annum. Awards over a threshold level (set by the Committee each year) are subject to deferral. Deferred awards will normally be released in equal tranches after one, two and three years, subject to continued employment. Annual bonus awards are subject to the Group's malus and clawback provisions.
Long-term incentives	To incentivise and reward the delivery of the Group's long-term strategy and growth over a sustained period.	Executive Directors are eligible to participate in the MIP, which has been designed to incentivise senior management to deliver and execute the Group's long-term strategy as well as aligning their interests with those of our Shareholder. Awards granted under the MIP are subject to an assessment of prior performance at both an individual and Group level. The MIP will deliver value to participants for growth in the value of the Group by reference to the achievement of stretching hurdles set relative to the Group's business plan. The value accrued under the MIP will ordinarily be released to participants at an exit event, i.e. the sale of the Group, the majority of its assets or an Initial Public Offering. The MIP includes customary lock up provisions. While the hurdles are financial in nature, the value of the Group, and therefore any value delivered under the MIP, will depend not only on financial performance but also on the overall health of the business which will consider other non-financial factors. Awards will be subject to the Group's malus and clawback provisions.

Non-Executive Director Fees

The Chair of the Board and Non-Executive Directors are entitled to an annual fee, with additional fees payable to the Senior Independent Director and Chairs and members of the respective Committees of the Board. Fee levels are reviewed periodically and are set out within this report.

Reasonable expenses incurred in the performance of Non-Executive duties may also be reimbursed or paid directly by the Group, as appropriate.

Directors' remuneration in 2023

The tables below set out the remuneration received by Executive and Non-Executive Directors during 2023. The numbers included in the table below have been audited.

Executive Directors	2023 All Executive Directors £000	2023 Highest paid Executive Director £000	2022 All Executive Directors £000	2022 Highest paid Executive Director £000
Salary	**1,150**	**750**	1,114	750
Taxable benefits	**4**	**2**	5	2
Pension	**173**	**113**	167	113
Annual bonus	**1,300**	**900**	1,265	865
Total	**2,627**	**1,765**	2,551	1,730

Non-Executive Directors[1]	2023 £000	2022 £000
Fees	**721**	727

Notes to the tables

Pension: Executive Directors received their pension contributions during 2023 by way of a cash allowance, except for Marcelino Castrillo who received part of his pension contribution by way of a contribution into the Group's workplace pension arrangement and part by way of a cash allowance.

Annual bonus: Executive Directors were eligible to participate in the annual bonus in 2023, with an on-target annual opportunity of 60% of salary and a maximum annual opportunity of 120% of salary. The bonus pool outcome was determined through a rounded assessment of performance against a range of weighted measures.

Category	Weighting	Example measures
Financial	55%	PBT, RoTE
Risk	15%	Risk appetite, risk management and other key risk objectives
Customer	10%	Customer experience, complaints handling and effective implementation and embedding of Consumer Duty
People	10%	Attrition, engagement and EDI
Strategy & Culture	10%	Key business initiatives, including evolution of product, technology and digital strategy and ESG measures focused on climate roadmap and the Group's communities reach.

When determining the bonus pool outcome, the Committee carefully reviewed performance against each of the relevant measures, whilst also taking into account broader considerations relating to overall Group and business area performance. The Committee also considered the outcomes of the Chief Risk Officer's independent report. Overall, the Committee considered that the Group had demonstrated strong financial performance over the course of 2023 and noted its robust approach to risk management, alongside a strong focus on customer experience and technology evolution. The Committee also recognised the Group's exceptional performance against it people and strategic objectives as well as the continued progress of its EDI agenda.

The overall value of awards for the Executive Directors, which also took into account their individual performance and contribution during the year, are included in aggregate in the emoluments table. In line with policy, 50% of any amount in excess of £100,000 payable to an individual will be subject to deferral in cash and released in three equal tranches after one, two and three years.

Share related benefits: no share related benefits were exercised during 2023.

Payments for loss of office: no payments for loss of office were made during 2023.

1 Whilst not paid directly to the individual, the Group incurs fees of £50,000 plus VAT per annum in relation to each Institutional Director appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement. The Institutional Directors are not employed by the Group and their fees are not included in the above table.

Wider workforce remuneration

In line with our guiding reward principles, the Group seeks to reward its employees fairly for their contribution and motivate them to deliver the best outcomes for all our stakeholders. The remuneration approach applied for the Executive Directors is closely aligned to the reward framework for all employees. All employees receive a salary, pension contribution and benefits set at a level considered appropriate for their role and experience. Fixed pay is set at a competitive level to attract and retain talent.

In terms of variable pay, all permanent and fixed-term employees are eligible to be considered for an annual bonus as appropriate to their role. The Group also operates a long-term incentive plan to reward other selected senior individuals who do not participate in the MIP for their contribution to the delivery of the long-term strategy.

The Committee receives and considers internal and external information as appropriate to guide decisions on remuneration, including but not limited to, the results of employee engagement surveys as well as feedback sought from the People Engagement Forum and other internal (such as the Chief People and Marketing Officer and Group Head of Reward) and external stakeholders. The Committee also considers progress against the Group's EDI initiatives, including gender pay gap outcomes for the year, details of which can be found on our website, and progress towards commitments made in line with the Women in Finance Charter.

As a private company, Shawbrook is not required to disclose the Chief Executive Officer pay ratio. However, in line with the Board's commitment to give due consideration to the spirit of the UK Corporate Governance Code and in the interests of transparency, the Committee has chosen to voluntarily disclose the ratio of the Chief Executive Officer's total remuneration to the median total remuneration of our employees.

Total remuneration [1]	Median pay ratio
2023	**26:1**
2022	**26:1**

Directors' remuneration in 2024

The Committee has determined that, for 2024, the remuneration policy will be implemented as follows for Executive Directors.

Executive Director salaries: the Committee reviewed Executive Director salaries on an individual basis. Considering market positioning and to reflect performance in role, the Committee determined that increases would be applied to both Executive Directors in 2024.

Pension and benefits will continue to operate in line with the remuneration policy.

Annual bonus: the normal maximum annual bonus opportunity for Executive Directors will be 120% of salary. When determining the annual bonus outcomes for 2024, the Committee will give consideration to performance based on a range of weighted financial and non-financial measures, as well as the individual's overall performance and the outcome of the Chief Risk Officer's independent risk review.

Long-term incentive: Executive Directors participate in the MIP, as detailed in the remuneration policy table. This is the only long-term incentive arrangement in which the Executive Directors currently participate.

Non-Executive Director fees

Fees for Non-Executive Directors were reviewed in early 2024 resulting in the below changes:

	Fee from 1 January 2023	Fee from 1 January 2024
Chair fee	£235,000	£275,000
Non-Executive Director base fee[2]	£70,000	£75,000
Senior Independent Director fee	£20,000	£20,000
Audit and Risk Committee Chair fee	£20,000	£30,000
Remuneration Committee Chair fee	£20,000	£25,000
Audit and Risk Committee membership fee	£5,000	£8,000
Remuneration Committee membership fee	£2,500	£8,000
Nomination and Governance Committee membership fee	£2,500	£5,000

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable, and timely information to perform its responsibilities effectively.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 28 March 2024.

Michele Turmore
Chair of the Remuneration Committee

1 Includes salary, taxable benefits, pension, and annual bonus awards earned in respect of the financial year. It does not include buyout awards, payments for loss of office or any awards granted under the MIP and Long-Term Incentive Plan. In reaching the median total remuneration of our employees, the Group has considered the full-time equivalent total remuneration of all individuals employed by the Group for the entirety of 2023 where such earnings have not been impacted by notable periods of absence.

2 Whilst not paid directly to the individual, the Group incurs fees of £50,000 plus VAT per annum in relation to each Institutional Director appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement.

Nomination and Governance Committee Report

"I am pleased to present the 2023 report as Chair of the Nomination and Governance Committee. The Committee continued to focus on Board and Executive succession planning, ensuring a desired mix of skills and expertise is maintained across the Board, its Committees, the Executive and Senior Management to support the delivery of the Group's strategy."

Shawbrook remains committed to EDI and continues to be a signatory of the Business in the Community Race at Work and HM Treasury Women in Finance Charters. Both are sponsored by a member of the Executive team who help to drive positive action with the support of the EDI Steering Committee and our wider employee inclusion network.

Developing and hiring great talent remains a key focus and the Committee supports the Executive team in delivering good outcomes. During 2023 the Committee reviewed and approved a refreshed Leadership Framework and reviewed regular updates on a number of initiatives aimed at supporting the development of talent, including the roll out of company wide coaching and mentoring platforms.

Looking ahead, the Committee will continue to keep the structure, size and composition of the Board and its committees under review, as well as overseeing succession of the Executive and Senior Management team and the Group's corporate governance arrangements. The Committee will also monitor progress on embedding the learnings from the 2023 Board and Committee effectiveness reviews.

Further information about the activities of the Committee is provided in the following report.

John Callender

Chair of the Nomination and Governance Committee

28 March 2024

Membership, attendance, and responsibilities of the Committee can be found on pages 57 and 59.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk**

Main activities during the year

Throughout the year, the Committee considered the composition of the Board and its Committees, Board succession planning, appointments to subsidiary boards, compliance with the UK Corporate Governance Code 2018, executive succession planning, the Group's leadership programme, SMCR appointments and EDI.

Board composition and succession planning

The Committee monitors the membership of the Board and its committees to ensure that there is a suitable balance of diversity, skills and experience. Consideration to the length of service of the members is also undertaken. This ensures that appropriate succession and development plans are in place for appointments to the Board. During the year, this work was complemented by a 360-degree review of the independent Non-Executive Directors carried out by the Chair.

In May 2023 the Nomination and Governance Committee was strengthened, with the appointment of Janet Connor and Andrew Didham as members.

The Committee is satisfied that the succession planning structure in place is appropriate for the size and nature of the Group.

Non-Executive Director time commitment

The Committee continued to keep under review the time commitment of each Non-Executive Director to help ensure that the Board and its committees had the appropriate representation and that the Non-Executive Directors were able to commit the appropriate time to their respective roles. This is on average at least four days per month depending on business needs.

Re-electing Directors

Before recommending the proposed re-election of Directors at the 2023 Annual General Meeting, the Committee reviewed the independence of the Non-Executive Directors and concluded that Andrew Didham, Paul Lawrence, Michele Turmore, Lan Tu and Janet Connor met the criteria for independence. John Callender was independent when he was appointed as Chairman. Lindsey McMurray and Cédric Dubourdieu's re-election as Institutional Non-Executive Directors was made in line with the Framework Agreement.

Non-Executive Director contracts

Subject to annual re-election at each Annual General Meeting, the contracts for Non-Executive Directors are reviewed every three years. I am pleased that my own appointment as Chairman was approved, for a further three year period, with effect from March 2024 and Andrew Didham's contract as Chair of the Audit Committee and Non-executive Director has also been renewed for a further three year period, from January 2023.

Executive and Non-Executive Director induction

All new Directors are required to undertake an induction programme, which includes comprehensive training on their Senior Managers and Certification Regime responsibilities. In addition, Directors are required to undertake training in the regulatory and compliance frameworks and are also required to gain an understanding of relevant legal requirements, such as money laundering legislation. Inductions include sessions with the Chairman, Directors, Executive Management and external advisors to gain insight into the Group. Training is tailored to the requirements of each Director's role, knowledge and experience.

EDI

Over the past 12 months, sustainable progress has been made against our EDI agenda by further embedding our pillars and continuing the focus on building a culture of trust and belonging. We achieved gender parity in our EDI staff survey scores for the first time and are on track to meet our 2024 Women in Finance target of 30% of women in senior roles. During the year we joined Progress Together, to further bolster our efforts to improve social mobility across financial services. We have, however, dropped back in the number of Minority Ethnic Senior Leaders in the Group and this continues to be a key focus in building the pipeline of future leaders.

Senior Management Function appointment process

The Committee is also responsible for overseeing the appointment of Senior Management Function holders, pursuant to the Senior Managers and Certification Regime. Prior to such appointments, the Committee evaluates the balance of skills, knowledge and experience required for the role and provides suitable oversight of the selection and appointment process. The Committee is pleased with the appointments made in 2023, which will help the Group to achieve its strategic aims.

Leadership Framework

In June 2023 the Committee reviewed and approved a refreshed leadership framework. The new framework clarifies what it means to be a leader in Shawbrook, supported by an impactful and transparent talent identification and development programme. During the latter part of the year Group wide coaching and mentoring platforms were launched, with very encouraging early levels of take-up. The Committee will continue to oversee the development and embedding of this framework.

Additional information

The Committee has unrestricted access to the Executive, Senior Leadership and external advisors to help discharge its duties. It is satisfied that in 2023 it received sufficient, reliable and timely information to perform its responsibilities effectively.

The Board reviewed and approved this report on 28 March 2024.

John Callender

Chair of the Nomination and Governance Committee

Directors' Report

Corporate governance statement

The Directors of the Company present their report, together with the audited financial statements, for the year ended 31 December 2023. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Section 414 of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 1 to 50.

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

Dividends

The Directors are not recommending a final dividend in respect of the year ended 31 December 2023 (2022: £nil).

Employees with disabilities

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

Appointment and retirement of Directors

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

Powers of Directors

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

Directors' interests

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

Directors' indemnities

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

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

The Group has maintained appropriate Directors' and Officers' liability insurance throughout 2023.

Company Secretary

All Directors have access to the services of the Company Secretary in relation to the discharge of their duties. Andrew Nicholson can be contacted at the Company's registered office, details of which are on page 196.

Going concern

The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis, the Directors considered a wide range of information relating to present and future conditions, including the Group's current financial position and future projections of profitability, cash flows and capital resources. The Directors also considered the Group's risk assessment framework and potential impacts that the top risk identified (see page 94 of the Risk Report) may have on the Group's financial position and longer-term strategy.

The Group continues to have a proven business model, as demonstrated by its continued levels of profitability, and remains well positioned in each of its core markets. The Directors believe the Group is well capitalised and efficiently funded, with levels of liquidity.

The Directors have reviewed the Group's capital and liquidity plans, which have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The stressed forecasts indicate that, under these stressed scenarios, the Group continues to operate with sufficient levels of liquidity and capital for the next 12 months, with the Group's capital ratios and liquidity remaining in excess of regulatory requirements.

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

Political and charitable donations

The Group did not make any political donations during the year (2022: £nil). The Group donated c.£200,000 to charitable causes during 2023 (2022: c.£200,000).

Share capital

The Group is a non-listed public company limited by shares.

Details of the Company's issued share capital, together with details of any movements in the Company's issued share capital during the year, are shown in Note 39 of the Financial Statements.

The Company's share capital comprises one class of ordinary share with a nominal value of £0.01 each. At 31 December 2023, 253,086,879 ordinary shares were in issue. There were no share allotments in 2023.

Restrictions on the transfer of shares

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

Rights attaching to shares

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

New issues of share capital

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

Purchase of own shares by the Company

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

Substantial shareholdings

The Group is 100% owned by Marlin Bidco Limited.

Auditor

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

Disclosure of information to the auditor

The Directors confirm that:

- so far as each of the Directors is 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 to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Directors' responsibility statement

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

Company Law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company financial statements on the same basis.

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

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

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

Each of the Directors, whose names and functions are listed on pages 53 to 55, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (on pages 1 to 50) and the Directors' Report (on pages 83 to 85) include a fair review of: (i) the business's development and performance and (ii) the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
- the Annual Report and Accounts comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the Shareholder to assess the Group's position and performance, business model and strategy.

This Directors' Report was approved by the Board of Directors on 28 March 2024.

By order of the Board.

Andrew Nicholson
Company Secretary

Risk Report

Approach to risk management

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

The Group's approach to risk management continues to evolve in response to changes in the business model and the products offered, changes in the way customers want to engage with the Group, as well as external changes and developments such as the ongoing challenges resulting from the rising cost of living.

Throughout 2023, further investment was made in key areas of risk management. Notable activities and changes include the following:

- The annual review of the Group's Risk Management Framework (RMF) and risk appetite were approved in February 2023 and April 2023, respectively. The Group Risk Appetite Report (GRAR) sets out the Group's tolerance for risk in delivering its objectives.
- The Group conducted a review of its risk taxonomy to ensure that the RMF is capable of managing future growth and the associated risks. As a result, the Group now identifies ten principal risks (see page 90). As part of these changes, the Group introduced a new Executive Risk Committee to support the escalation of risk related matters. This is supported by a number of new oversight committees, which support the oversight of the new principal risks.
- Continued investment has been made by the Group in its risk management capability. This has included a reorganisation within the second line of defence to bring operational risk, monitoring and third-party risk oversight together under the newly created role of Group Director of Operational Risk and Monitoring. In addition, MI (management information) and analytics were brought together under the Group Risk Management Director.
- Following regulatory approval, the Group completed the acquisition of Bluestone Mortgages Limited on 31 May 2023. Launched in 2014, Bluestone Mortgages Limited is a well-established brand in the UK specialist residential mortgage market, working with a large network of brokers to support customers that do not fit the traditional profile of high street banks. The Group has appointed a Chief Risk Officer for the Retail Mortgage Brands franchise to provide a shared risk service to drive consistency and promote the embedding of the Group RMF across TML and BML.
- The Group has continued to evolve its environmental, social, and governance (ESG) strategy, focusing on those areas in which it can deliver the greatest impact. The Group has further developed its climate strategy to support its customers' transition to a low carbon future, reduce its climate impact and embed climate risk into the Group's DNA. This has included additional investment in climate data to support an assessment of physical and transition risk for SMEs and progress in delivering the £1.2 billion of sustainable finance by 2025.
- Enhancements to the Group's financial crime control environment have continued. All originations now pass through a financial crime and compliance platform, and the MI suite has been enhanced. The Group also processed the back book through the new system to identify any potential flags.
- The Group has completed its work on the 'Consumer Duty', delivering key product reviews against the rules by 30 April 2023 and management attestation of substantive compliance with the regulation was provided to the Board in July 2023. Ongoing compliance will be supported through reports to the Board, updates to group risk appetite reporting, a new customer experience dashboard and inclusion in the annual risk attestation.
- The Group has continued to invest in risk technology and MI as a primary source of control. This has included the delivery of a cloud-native version of its analytical system that has been designed to support access to data in any environment, new data visualisation tools and support the implementation of AI and machine learning into the lending process. The Group also implemented a new governance, risk, compliance and assurance tool, which is designed to bring risks, controls, and assurance into a single ecosystem shared by all lines of defence.
- Model risk, which is now identified as a principal risk, is a key area of focus for the Group, with further investment in resources to support the development of a road map and activities to embed the new PRA policy model risk management principles for banks. Although the Group does not have permission to use its internal models to calculate regulatory capital requirements, it supports the aim of strengthening its controls around the use of models as best practice. The Group continues to be regulated under the Standardised Approach for credit risk and has considered some further 'no regrets' actions that would be considered good risk practices normally associated with firms that have an IRB permission. These include the use of models in the way that the bank operates, data, and data controls.
- Continued investment in the development of the Group's internal audit function, including the appointment of key resources to support the co-source model and focus on data to support an agile risk assessment and prioritisation of the audit plan.
- Considerable economic uncertainty has remained throughout 2023, with the rise in the cost of living, the underlying elevated level of core inflation, elevated interest rates, the conflicts in Ukraine and the Middle East and the potential for supply chain disruption. These matters all require careful monitoring to identify any associated risks that need to be addressed. This continues to be monitored by the Group through a specifically designed set of early warning indicators.
- In response to the ongoing changes in the economic environment, the Group continues to maintain a focus on affordability, ensuring its models and policies remain appropriate and closely aligned to customer behaviour. The Group has continued to conduct regular portfolio reviews, with the benefit of external information to ensure that its risk appetite remains appropriate.

Composition and naming of disclosed lending segments
During the year, following the acquisition of Bluestone Mortgages Limited (BML), the Group's disclosed lending segments have been revised. The previously disclosed 'Real Estate' segment has been amended to extract all amounts relating to BML. Amounts relating to BML are now aggregated with the previously disclosed 'TML Mortgages' segment; forming a new reportable operating segment named 'Retail Mortgage Brands' (which comprises the two subsidiaries, Bluestone Mortgages Limited and The Mortgage Lender Limited). Prior year comparatives have been restated to reflect this change. Further details are provided in Note 10 of the Financial Statements.

Approach to risk management

Key elements to risk management

Effective risk management is recognised as being key to the execution of the Group's strategy. The Group's approach to risk management is underpinned by five key elements:

- Risk strategy
- Risk appetite
- Risk Management Framework
- Governance
- Culture

The following information provides further details about each of these key elements.

Risk strategy

The risk strategy is an integral part of the Group's strategy. It sets out the strategic risk management objectives that will support the achievement of the Group's commercial goals and the operation and activities of each customer franchise that will facilitate the delivery of those aims. The risk strategy sets out which risks are to be acquired or incurred and how they will be managed. The risk strategy is embedded in the Group strategy with short- and medium-term objectives outlined in the Group's Risk Plan, which is approved annually by the Board in February. The Group's Risk Plan includes the risk priorities for the Group's risk function, together with the risk plans for the customer franchises (Enterprise, Consumer and Retail Mortgage Brands) and central functions.

The strategic risk management objectives are to:

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

Risk appetite

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

During the year ended 31 December 2023, the Group completed the annual review, together with some interim reviews, of the Group's risk appetite.

The Risk Appetite Statement is not static and evolves to support the Group's business objectives, the operating environment and risk outlook. Whilst the Group Risk Appetite Report provides an aggregated measure of performance against risk appetite, it is not just a reporting tool. It also provides a framework that is used dynamically to inform strategic and operational management decisions, as well as supporting the business planning process.

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

As set out in the table on the following page, the Risk Appetite Statement identifies ten risk appetite objectives that are further subdivided into 34 appetite dimensions. The objective assessment of each risk appetite dimension is supported by qualitative statements and a series of quantitative measures that are weighted by their importance to the overall appetite.

Approach to risk management

Risk appetite objectives	Risk appetite dimensions	
Strategic risk	• Equality, diversity and inclusion • Governance risk	• Sponsorships and partnerships risk • Strategy and transformation risk
Credit risk	• Concentration risk • In-life management risk • Losses due to default on contractual obligations	• Losses due to inadequate security/collateral • Underwriting quality risk
Market, liquidity and capital risk	• Capital adequacy • Funding	• Liquidity • Market
Operational risk and resilience	• Data quality and governance risk • Fraud • Operational resilience risk • People	• Physical assets availability, safety and security • Statutory reporting and tax risk • Third party • Transaction processing risk
Technology and cyber risk	• Technology availability risk	• Technology infrastructure risk
Conduct risk	• Culture and market risk • Customer conduct risk	• Lending to other lenders
Compliance and regulatory risk	• Data privacy • Regulatory management	• Legal risk
Financial crime risk	• Financial crime	
Model risk	• Model design and implementation • Model governance	• Model usage
Climate risk	• Environmental and climate risk	

Risk Management Framework

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

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

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

The RMF also incorporates the organisational arrangements for managing risk with specific responsibilities distributed to certain functions. This ensures that there is clear accountability, responsibility and engagement at appropriate levels within the Group, which can provide robust review and challenge, as well as be challenged. Operationally, the RMF is organised around a number of principal risks (see page 90).

Governance

All of the Group's risk activities are subject to detailed and comprehensive governance arrangements that set out how risk-based authority is delegated from the Board to the various risk management committees and individuals. Risk governance and oversight is detailed further below, starting on page 90.

Culture

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

Risk governance and oversight

The monitoring and control of risk is a fundamental part of the management process within the Group. Risk governance describes the architecture through which the Board allocates and delegates primary accountability, responsibility and authority for risk management across the Group.

Responsibility for risk oversight is delegated from the Board to the Risk Committee and Audit Committee. However, ultimate responsibility for risk remains with the Board. An abbreviated Board and Executive Committee structure is set out in the Corporate Governance Report on pages 51 to 85, which further describes their roles and responsibilities.

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

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

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

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

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

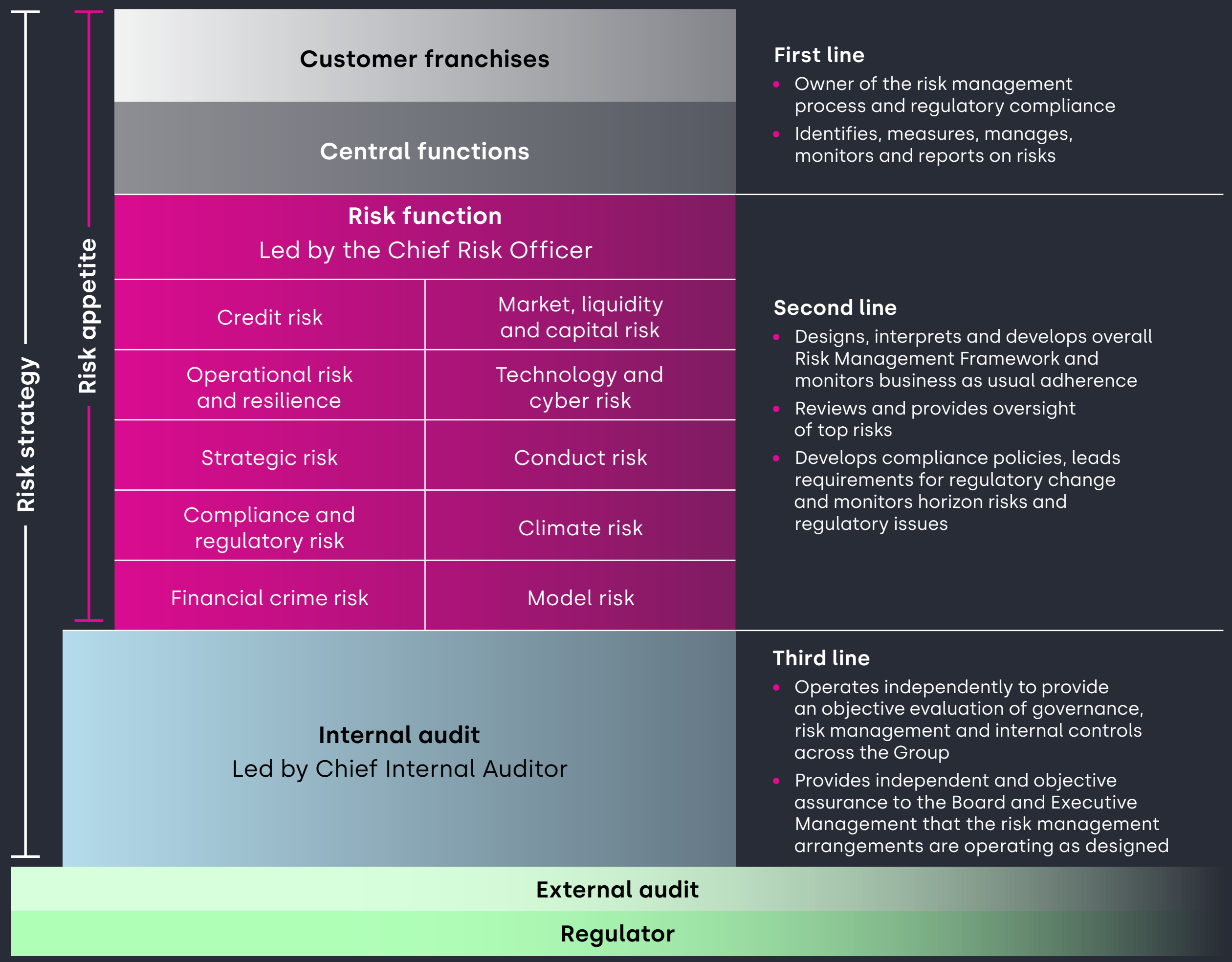
Oversight of principal risks is illustrated as follows.

Oversight / Principal risk	Board			
	Risk Committee			Audit Committee
	First line	Second line		Third line
Strategic risk	Executive Directors and Senior Management	Prudential risk	Executive Risk Committee	Internal audit
Credit risk	Credit management in customer franchises	Credit risk	Credit Risk Oversight Committee	Internal audit
Market, liquidity and capital risk	Treasury	Liquidity and market risk / prudential risk	Asset and Liability Committee	Internal audit
Operational risk and resilience	All customer franchises and central functions	Operational risk and monitoring	Op Risk and 3rd Party Oversight Committee	Internal audit
Technology and cyber risk	Chief Technology Office	Operational risk and monitoring	Op Risk and 3rd Party Oversight Committee	Internal audit
Conduct risk	All customer franchises	Compliance	Conduct / Compliance Oversight Committee	Internal audit
Compliance and regulatory risk	All customer franchises	Compliance	Conduct / Compliance Oversight Committee	Internal audit
Financial crime risk	All customer franchises	Financial crime	Financial Crime Risk Oversight Committee	Internal audit
Model risk	All customer franchises and central functions	Prudential risk	Model Risk Oversight Committee	Internal audit
Climate risk	All customer franchises and central functions	Prudential risk	Conduct / Compliance Oversight Committee	Internal audit

Risk governance and oversight

Three lines model

The RMF is underpinned by the three lines model, which is summarised in the illustration below:



Additional information regarding the three lines are provided in the following sections.

First line

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

The first line comprises the customer franchises and the central functions. The central functions include:

- the finance function led by the Chief Financial Officer;
- the customer service and experience function led by the Customer Operation and Service Support Director;
- the technology function led by the Chief Technology Officer;
- the product function led by the Chief Product Officer;
- the human resources and marketing function led by the Chief People and Marketing Officer; and
- the legal function led by the General Counsel.

Operational resilience oversight is performed by the Customer Operation and Service Support Director on behalf of the Executive Committee.

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

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

Risk governance and oversight

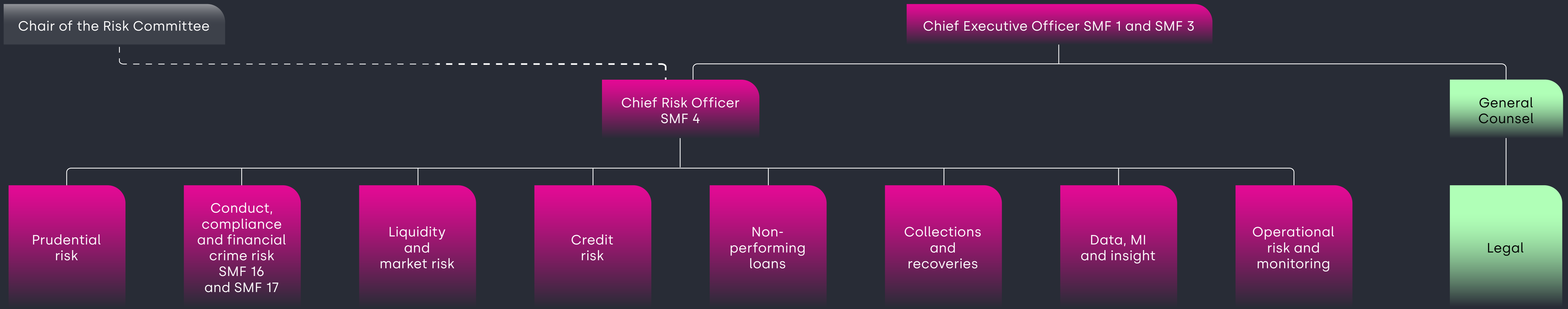
Second line

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

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

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

The Group's high-level risk structure is illustrated below. 'SMF' references included in the below diagram refer to designated roles stipulated by the Senior Managers and Certification Regime.



Risk governance and oversight

Third line

The third line comprises the internal audit function, led by the Chief Internal Auditor.

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

The third line has access to the activities and records of both the first and second lines. It can inspect and review adherence to policies and controls in the first line, the monitoring of activities in the second line and the setting of policies, standards and controls in the second line.

The third line does not independently establish policies or controls itself, outside of those necessary to implement its recommendations with respect to the other two lines. The third line may in some cases use the reports and reviews compiled by the second line as a starting point, but is not restricted to them or necessarily influenced by their findings.

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

Risk policies and controls

The RMF is enacted through a comprehensive suite of policies and associated standards that set out the minimum standards in relation to the acquisition and management of lending assets and liabilities, as well as the control of risks embedded in the Group's operations, activities and markets.

The Group's policies and associated standards are overseen by the Group's risk function, headed by the Chief Risk Officer and are approved by the Board or, where delegated, the appropriate risk oversight committee. The suite of policies and standards is grouped according to importance and principal risk within a Board approved policy hierarchy and framework.

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

The effectiveness of, and compliance with, risk policy frameworks are evaluated on a continuous basis through the monthly reporting requirements (including risk policy exceptions reporting).

Additionally, a bi-annual risk and control self-assessment, supplemented by a programme of audits, thematic risk monitoring reviews and control testing, is undertaken by each of the three lines. During 2023, the Group also implemented a capability assessment to support the annual attestation process, which confirms compliance with the RMF and identifies risk management priorities over the duration of the five year plan.

Asset class policies

The Group controls its lending activities through an established Credit Risk Framework defined by nine Group credit policies and 17 individual asset class policies. This provides a stable, consistent risk standard and control across the Group's portfolio of loan assets. Asset classes can also be aligned more readily with risk-weightings, probability of default (PD), loss given default (LGD) and expected credit loss (ECL) metrics, which facilitates risk reporting, risk adjusted profitability analysis and modelling for stress testing and capital adequacy purposes. During 2023, the Group continued to utilise a matrix that sits above the asset class policies to highlight the key criteria that are reserved for Board approval.

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

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the RMF (see page 94) and are considered regularly by the risk oversight committees, Executive Risk Committee and subsequently by the Risk Committee.

- Top risks are those risks that could cause the delivery of the Group's strategy, results of operations, financial condition and/or prospects to differ materially from expectations.
- Emerging risks are those that have unknown components, the impact of which could crystallise over a longer period and could include certain other factors beyond the Group's control, including escalation of terrorism or global conflicts, natural disasters, epidemic outbreaks and similar events.

As at 31 December 2023, the Group has identified nine top risks and no emerging risks. This is unchanged compared to 2022.

The nine themes identified as top risks are as follows:

- Economic and competitive environment
- Credit impairment
- Geopolitical risk
- Intermediary, outsourcing and operational resilience
- Technology, information and cyber security risk
- Pace and scale of regulatory change
- Pace, scale of change and people risk
- Financial crime
- Climate risk

In the following pages, the below symbols are used to illustrate the change in risk environment during the year for each of the Group's top risks.

- ↑ Risk increased
- ↓ Risk reduced
- ↔ No change

Information on the following pages provides a review of each of these themes.
Links to key performance metrics provided in these reviews refer to those detailed in the 'Shawbrook in numbers' summary.

Top and emerging risks

Economic and competitive environment

Overview

There remains significant ongoing uncertainty regarding the future economic trajectory for the UK, which could affect the Group's performance. Revisions to the National Accounts show that the economy is now broadly in line with before the pandemic, with the UK not expected to grow in 2024, having flirted with recession in 2023. Market prices suggest that interest rates are at, or near, to their peak, but the outlook is higher for longer, with the Bank of England prepared to make further changes if the economic signals suggest it needs to in order to control inflation. The conflict in the Middle East could increase oil prices, which could mean a further squeeze on real incomes for many, with prospect for a modest rise in unemployment and lower house prices.

The trading environment is expected to be challenging in the face of a steep increase in interest rates and lower demand. Housing transactions are expected to reduce just below the long run average of 1.2 million transactions per year, with rental supply reaching its peak.

Links to key performance metrics

- Loan book
- Customers served
- Cost of risk
- Net interest margin
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Reduced gross lending from lower demand as customers defer major purchases and investment in light of higher interest rates and lower real income leading to lower buying power. This may be partly offset by lower early repayments of loans.
- Increased impairments if a significant number of SMEs experience financial distress or insolvency, or if consumers experience an increase in unemployment.
- A prolonged economic downturn may impact the Group's ability to fund strategic investment to meet the needs of customers and improve operations.
- Rising competition, or a sudden reduction in interest rates to support the economy, may compress Group margins and impact on target returns.

How we manage this risk

- The Group continues on its digital journey and, following the launch of the MyShawbrook portal for buy-to-let, bridging and commercial investment product ranges, ColleagueHub was implemented to streamline the application process through the provision of fast valuation-backed credit decisions. This tool will help the Group to enhance the customer experience whilst allowing the Group to react quickly to changes in the macroeconomic environment.
- The Group has implemented its new savings digital journey for 1,000 existing customers to test the self-service experience and provide an opportunity for enhancement prior to the migration of all existing customers by Q2 2024.
- The Group continues to deploy its proprietary portfolio management tool to provide powerful insights into monitoring loan book risk and performance across its Real Estate and SME portfolios. The Group has continued to evolve its early warning indicators within its interactive dashboard, which now provides a daily update on key emerging risk indicators.
- The Group has carefully considered its risk appetite in its selected markets. The Group has hosted regular in-focus sessions with external experts in its key markets and completed regular product and sector reviews to identify any early warning indicators.
- Investment in additional resources in the first and second lines of defence continues to strengthen the Group's ability to identify and manage potential problem loans.
- The Group undertakes a comprehensive assessment of its risk appetite under baseline and alternative scenarios to ensure that it can meet its objectives in plausible economic conditions.

Focus areas for 2024

- Targeted application of risk appetite in carefully selected sectors to align with the economic outlook as it emerges.
- Scale the business through the implementation of further automation in lending, customer management (particularly in SME lending), savings operations and digital self-service.
- Utilisation of third parties and technology to increase capacity in originations, servicing and collections activities in order to position the Group to meet the needs of its customers.
- Continue to invest in outsourcing controls and oversight to manage any additional risk that the Group may be exposed to.
- Support the wider adoption of Agile through the embedding of the product and engineering model.
- Investment in technology resources to deliver the engineering requirements of the accelerated digital strategy and internal controls.

Top and emerging risks

Credit impairment

Overview

The Group's growing loan book brings with it exposure to credit impairment if customers are unable to repay loans and any outstanding interest and fees.

The economic outlook will play a key role in driving the impairment profile in the foreseeable future. An elevated interest rate environment, reducing inflation, and cost of living impacts on real income could impact affordability. In turn, this could put upward pressure on the Group's cost of risk. Retail customers and SMEs are particularly vulnerable to interest rates and increased energy costs.

Links to key performance metrics

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

How this could impact our strategy or business model

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

How we manage this risk

- The Group's risk appetite is calibrated to facilitate achievement of the business strategy and is modified as required to reflect uncertainty in the economic and competitive landscape.
- The Group has enhanced its underwriting guidelines and affordability policy to ensure that it remains appropriate in the current and emerging environment. Asset class policies have also been cautiously reviewed to position the Group appropriately.
- Additional investment in permanent employees to focus on potential problem loans has managed the number of watchlist and forbearance cases and will continue to respond proactively to uncertainty in the economic outlook.
- The impact on impairment models is regularly monitored and reported to internal committees and judgemental adjustments to modelled ECLs are reviewed by the Model Management Sub-Committee and approved by the Group Impairment Committee.

Focus areas for 2024

- Increase focus on product and sectoral risk to support the Group's evolution of risk appetite in an uncertain economic environment.
- Continue to develop strategic credit management information to ensure timely and accurate reflection of risk in the Group's lending segments, thus enhancing the Group's ability to make proactive decisions.
- To implement an end to end and digitally enabled Credit Management Platform (CMP) to manage SME credit risk from origination, through in-life management, and potential problem management.
- The implementation of a resources to focus on high value portfolio management cases.
- Continue to develop the granularity and accuracy of the Group's stress testing capability.
- Regular review of the evidence supporting all key areas of judgement used in support of the model-based ECL.

Top and emerging risks

Geopolitical risk

Overview

The geopolitical environment remains uncertain, with conflict in Ukraine and the Middle East, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish referendum, amongst others.

The Group operates predominantly in England, Wales, and Scotland and has no direct exposure to Russia, the Ukraine or the Middle East. However, the Group is exposed to the second order impacts on supply chains and the impact of inflation on the real incomes of its customers.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Customers served
- Cost of risk
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Lower economic growth, labour shortages and disruption to supply chains could impact the level of private sector investment in the UK. In turn, this could negatively impact on demand for loans, funding and deposits.
- Trade disagreements could potentially elevate economic issues, as seen with the rise in inflation during 2022. This could lead to higher interest rates and may impact loan impairments.
- Credit spreads could widen leading to reduced investor appetite for the Group's debt securities. This could impact the Group's cost of and/or access to funding and the ability to grow its loan portfolios.
- The Group's operational resilience may be impacted by the need to transition activities from non-UK firms.
- The new Data Protection and Digital Information Bill may go live in 2024 and could impact our adequacy decision within the European Economic Area (EEA). This would impact the cross-border data transfers within the EEA.

How we manage this risk

- The Group undertakes a comprehensive assessment of its risk appetite and stress tests its lending and deposit portfolios to ensure that it can meet its objectives in plausible economic conditions.
- The Group regularly engages with its critical suppliers to foresee and mitigate any impact on services provided to the Group.
- The Group continues to strengthen and optimise its capital position and pursue a diversified funding structure. The Group has implemented a Euro Medium Term Note (EMTN) programme to support capital issuance to optimise the capital stack, markets permitting. The Group has completed a number of full stack and retained securitisations of its loan portfolios and has invested in the capability to complete additional securitisations, markets permitting.
- The Group monitors and screens for sanctions issued by the UK (The Office of Financial Sanctions Implementation) and USA (The Office of Foreign Assets Control).
- The Group has reviewed its register of outsource providers and has no gaps in EU General Data Protection Regulation Article 28 clauses.
- The Group has identified all cross border data transfers recorded within the Record of Processing Activities (ROPA) and issued contract variations to all suppliers who process data outside the EEA.

Focus areas for 2024

- Ensure that all outsourcers and third parties are operationally resilient in the event of geopolitical uncertainty, including the review of business continuity plans and disaster recovery plans and regular tests of technology resilience using tools such as penetration testing.
- Continue to develop a range of mitigating actions, including the use of robust stress tests that contain the risk of geopolitical risk by comparing the economic scenarios assessed in IFRS 9 with those used in the ICAAP.
- Continue to monitor the situation in Ukraine and the Middle East. Although the Group does not have any direct exposure, it does have indirect exposure, for example the impacts of rising oil and energy prices, cost of living and inflation, potential supply chain issues faced by customers and increased cyber security threats. The Group has updated its affordability policy and will continue to monitor to ensure that its lending remains appropriate. The Group will continue to closely monitor the cyber perimeter and information security risks, as detailed on page 99, and will continue to engage with key third parties.

Top and emerging risks

Intermediary, outsourcing and operational resilience

Overview

The Group uses a number of material third parties to support the delivery of its objectives. The availability and resilience of its core customer facing systems and ability to operate in line with regulatory requirements play a key role in supporting the Group's reputation in its chosen markets.

The specialist nature of some of the Group's lending through intermediaries and brokers could mean some customers find themselves with an increased risk of an unfavourable outcome. This may result from the interpretation of Mortgage Conduct of Business regulation, Consumer Credit sourcebook, the Consumer Duty and other regulations, along with the oversight of third parties where it may be exposed to Consumer Credit Act Section 75 and Section 140 risk.

Links to key performance metrics

- Loan book
- Customers served
- Cost to income ratio
- Liquidity ratio

How this could impact our strategy or business model

- The Group may be impacted by the failure of material third parties to deliver on the Group's policies and regulatory obligations. This may lead to increased complaints, customer harm, redress costs and damage to the Group's reputation through regulatory censure. This may also lead to increased contingent liabilities in certain areas where the Group is exposed to Section 75 and Section 140 liabilities of the Consumer Credit Act, which impacts on the Group's profitability and capital resources.
- Failure of a material third-party supplier may lead to customer harm, complaints, loss of confidence in the Group and potentially regulatory censure.
- The Group, as a deposit taker, could be impacted if a systems failure prevented a significant number of payments being made, which may lead to financial stability being undermined.
- The potential for operational disruption could have a material impact on profitability or viability.

How we manage this risk

- The Group has continued to invest in its relationship with its key third parties, with a focus on good customer outcomes, particularly as customers deal with increasing cost of living pressures. This has included increased reporting on the performance of material third parties at the Operational Risk and Third Party Oversight Committee, Executive Risk Committee, Risk Committee and Board, as appropriate.
- The Group has identified all of its important business services and has invested in resources to improve controls and develop contingency solutions and plans to help mitigate service disruption.
- The Group has developed and implemented an operational resilience roadmap and important business service dashboard to measure resilience and help identify risks. This includes an update to impact tolerances to promote greater focus on operational resilience objectives, including revised safety and soundness measures in line with regulatory requirements.
- The Group has further invested in both cloud and on-premise technologies to increase the resilience of its core systems, provide backup for core information and automate its key management information. This has also included the onboarding of climate related management information. The Group has further invested in its capability through the completion of a cloud native analytic platform that is capable of reaching data wherever it is located.

Focus areas for 2024

- Continue progress in embedding the Operational Resilience Framework through scenario testing to refine the Group's impact tolerances in assessing both intolerable customer harm and the risk to safety and soundness of the Group ahead of the March 2025 regulatory milestone.
- Continue to review the Group's contracts to meet the requirements of SS2/21 on outsourcing and third-party management, as well as focusing on embedding SS4/21 on operational continuity in resolution, including the impact on risk appetite.
- Continue to work closely with the Group's partners to ensure that appropriate and, where necessary, skilled capacity is in place to service the expected increase in customer contact as a result of anticipated cost of living pressures.
- Continue to accelerate investment in digital enhancements across the Group, including the embedding of Agile and product engineering within its product segments and the automation of its credit risk management information.

Top and emerging risks

Technology, information and cyber security risk

Overview

The cyber threat remains significant and high profile across all industries. Cyber security and information risk continues to be a focus area for regulators and is increasingly assessed as an integral part of operational resilience. This includes an increase in public awareness on cyber risk in the face of increasingly targeted, destructive ransomware attacks experienced over recent years in the market.

Information and cyber security risk is further heightened by the conflict in Ukraine and the Middle East.

Links to key performance metrics

- Loan book
- Customers served
- CET1 capital ratio
- Total capital ratio
- Cost to income ratio

How this could impact our strategy or business model

- Increasing customer demand could exceed the Group's ability to provide highly reliable and widely available systems and services, leading to a fall in confidence and customer attrition.
- The evolving nature and scale of criminal activity could increase the likelihood and severity of attacks on the Group's systems.
- Customer franchise value and customer trust could be significantly eroded by a successful attack on the Group's systems, leading to a denial of access to systems, a diversion of funds or the theft of customer data.

How we manage this risk

- The Group continually reviews its control environment for information security to reflect the evolving nature of the threats to which the Group is exposed.
- The Group's strategy for mitigating information security risk is comprehensive, including: a documented cyber strategy, ongoing threat assessments, regular penetration testing, the wide deployment of preventative and detective controls and a programme of cyber awareness education and training.
- The Group continues to invest in its technology layer, including the use of cloud computing resources to improve resilience and the implementation of additional controls to support the security of its core systems. This includes investment in automated application security testing tools, sensitive data discovery software and cloud security monitoring and alerting tools.
- The Group has implemented further changes to support the simplification and resiliency of its technology leveraging the cloud. This includes a new telephony system and the migration of key technology for the Retail Mortgage Brands businesses to the Shawbrook environment.
- Development of customer franchise specific application and data heatmaps to manage legacy system risk, resilience and the build-up of technical debt. This has included a programme to reduce technical obsolescence by upgrading servers to modern equivalent infrastructure.
- In response to the conflict in Ukraine and the Middle East, the Group's Information Security team continues to operate at a heightened state of awareness in response to threat intelligence and security alerts and have implemented technical mitigation steps where possible, increased communications with employees to enhance vigilance and raise cyber awareness and engaged with critical third parties to understand their action plans in light of the increased risk.

Focus areas for 2024

- Continue to invest in capabilities to reduce the Group's exposure to a cyber-attack and continue the Group's alignment to ISO 27001 standards to further refine risk appetite and controls with respect to information security.
- Continue to embed the Chief Technology Office and information security controls within the Group's outsourcers and third parties, including third party perimeter monitoring.
- Continue the Group-wide implementation of data ownership and controls to promote improved accuracy of source customer data and improvements in management information.
- Continue to evaluate and deploy new and emerging technology tools to identify and/or mitigate cyber threats as well as to increased awareness culturally.
- Continue the Group-wide implementation of Agile through the embedding of the product and engineering model.
- Technology objectives in 2024 include continued customer journey enhancing applications, championing data driven Decision making and delivering colleague experience improvements to improve efficiency and collaboration.

Top and emerging risks

Pace and scale of regulatory change

Overview

The prudential and conduct regulatory regimes are subject to change and could lead to either an increase in the level and quality of financial resources, or change in policies and processes to meet regulatory requirements.

In relation to financial risk, in July 2023, the Financial Policy Committee increased the UK countercyclical capital buffer from 1% to 2%. Other relevant prudential policy announcements in the next year include the final rules on the implementation of Basel 3.1 and Corporate Audit reform.

The financial sector will also continue to embed climate risk regulation and industry standards, which are subject to evolve over the coming years and will form a key part of the business strategy. These include the expected impact of ISSB regulations, which will require additional disclosures on the path to net zero and interim targets.

In relation to non-financial risks, implementation of operational resilience and third party and outsourcing regulations will continue, along with other high priority regulatory initiatives as published in the Regulatory Initiatives Grid, including regulatory reviews following the implementation of the new Consumer Duty.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Cost of risk
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- An increase in minimum regulatory capital requirements may directly impact on the Group's risk appetite and its ability to support its lending to current and potential future customers.
- Changes in regulatory capital requirements may lead the Group to change its business mix, exit certain business activities altogether, or not expand in areas despite otherwise attractive potential.
- An increase in minimum regulatory capital requirements may restrict distributions on capital instruments. This may impact upon the Group's ability to issue new, or refinance existing, capital instruments.
- Frequent change in regulation could also have wide ranging impacts beyond financial resources reflected through changes in internal policies and processes, people and systems resources, product offerings and the markets and customers served by the Group.

How we manage this risk

- The Group engages with regulators, industry bodies and advisors to actively engage in consultation processes. The Group reviews regulatory publications to assess their implications for the business and oversees the impact analysis through its Regulatory Change Working Group.
- During 2023, the Group supported UK Finance and responded to the PRA directly on the Basel 3.1 consultation.
- The Group follows its prudential programme to update its ICAAP, ILAAP and Recovery Plan and Resolution Pack and considers the conclusions in the regular business planning processes that have taken place during the year.
- In October 2023, the Group completed the issuance of £90 million of Tier 2 capital in a difficult market. The offering was positively received by investors and supports the optimisation of the Group's capital stack and maintenance of capital buffers.

Focus areas for 2024

- Ongoing stress testing of the Group's lending portfolios to quantify the impact of any changes on the strategy and business model.
- Completion of the annual review of the ICAAP and Recovery Plan and the Capital Supervisory Review and Evaluation Process.
- Ongoing monitoring of controls to support the monitoring of the Consumer Duty and Consumer Principle.
- Investment in maturity of internal controls and monitoring.

Top and emerging risks

Pace, scale of change and people risk

Overview

The Group needs to deliver a significant number of projects over the duration of its 2024 plan in order to deliver on its objectives. Failure to deliver the required change may lead to disruptions in the delivery of its objectives.

ESG is a key pillar of the Group's purpose-led strategy and reflects the importance of sustainability, and equality, diversity and inclusion (EDI) in driving the long-term strategy and business model.

Links to key performance metrics

- Loan book
- Customers served
- Cost to income ratio
- Net interest margin
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Delivering what customers need and in the way that they want to engage with the Group is essential to delivering the Group's objectives and failure to do this may impact on originations, customer retention and profitability.
- People risk remains a key factor in the post-COVID environment as hybrid working and flexible working hours becomes the 'new normal'. Improvement in technology continues to create options for people to live and work from a place of their choice and firms that lag behind in their employee value proposition might find it difficult to attract the right talent.
- Failure to protect employees and promote mental health and wellbeing could lead to higher absence and lead to a reduction in employee engagement. This in turn could impact upon the Group's ability to look after its existing customers.
- A clear and purposeful ESG strategy is key to supporting long-term sustainable performance, including strong engagement from all employees.

How we manage this risk

- During 2023, the Group has continued to evolve and mature its technical and product change execution model. The regular CTO committees now provide Group-wide oversight of change activity and associated risk management. The Change Delivery Policy, which governs all technology and product change activity, has been revised to reflect the wider adoption of agile delivery methodologies and to more clearly define quality assurance, information security and release management approaches.
- The Chief Product Office (CPO) is firmly established as a driver of excellence in product delivery and collaborates closely with the CTO function on both product and technical change. The Software Engineering, Quality Assurance and Delivery disciplines are now fully integrated as part of the CPO function, providing an optimised organisational model for collaboration with the Product, Data and Experience Design disciplines.
- The Group continues to develop its employee value proposition to attract and retain the best talent to support its business strategy. The Group has adopted hybrid working, providing the opportunity to access a wider talent pool across the UK. The Group offers employees membership to a wellbeing app and access to an online GP service and completes a comprehensive workplace assessment process, with the provision of additional support and/or equipment where reasonable adjustments are required.
- The Group regularly conducts its employee engagement survey to gather views and suggestions from its employees to facilitate the creation of the best possible working environment. The Group maintained a positive employee engagement score in the latest survey conducted in November 2023 of 84% (2022: 82%).
- The Group has launched an ESG Sub-Committee and EDI Steering Committee, which focuses on four key pillars (belonging, race, gender and social mobility).
- The Group works with a number of external partnerships to build collaboration, insight and leverage best practice that will support employees and customers. This includes a partnership with the rugby union team, Saracens and supporting the Saracens Foundation, whose mission is to transform lives both on and off the pitch in order to build stronger communities. In 2023, the Group announced an extension for an additional five years, including sponsorship of the three elite teams and including support for as big a positive impact as possible across women's sport, equality and inclusion.

Focus areas for 2024

- The Group has organised its strategic priorities into a roadmap through which to prioritise its resources. Delivery of this roadmap is key to the Group's objectives and will continue throughout 2024.
- Continue to advance the digital strategy through investment in people and technological resources to deliver the Group's objectives.
- Continue to work with external partnerships to further create opportunities to create future leaders.
- The transition to a new London office to support greater engagement and collaboration across the business and functions.

Top and emerging risks

Financial crime

Overview

Financial crime is any kind of criminal conduct relating to money or to financial services or markets. This includes any offence involving:

- fraud or dishonesty;
- misconduct in, or misuse of information relating to, a financial market;
- handling the proceeds of crime; or
- the financing of terrorism.

Although the risk has always been present in the financial services industry, the increased use of digital channels has elevated the risk profile. With the development of technology, the type and impact of financial crime activities is likely to increase over the coming years.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Customers served
- Cost of risk

How this could impact our strategy or business model

- An inadequate control environment for financial crime could lead to increased operational losses, credit impairment, increased manual reviews and potentially regulatory enforcement, restrictions on business growth and acquisitions, penalties and/or censure.
- The reputational damage associated with financial crime could cause loss of customers and intermediaries, impacting the Group's revenues and financial position and/or regulatory standing.
- The current hybrid working environment and the transition of resources to new work activities may impact the effectiveness of existing controls and increase internal fraud opportunities.

How we manage this risk

- The Group continues to enhance its control environment with respect to financial crime. This is closely monitored by the Executive Risk Committee and Risk Committee.
- The Group began implementation of an automated customer due diligence process in 2021, automated transaction screening in 2022 and the migration of the back book in 2023 together with enhanced MI and supported by control testing.
- The Group conducts a firm-wide financial crime risk assessment to assess compliance with Group policies. This focuses on the following risk categories: money laundering and terrorist financing risk, bribery and corruption risk, sanctions risk, tax evasion risk and fraud risk.
- The Group uses a combination of mandatory reads of policy, online training and communications to increase awareness of best practice.

Focus areas for 2024

- Testing of the effectiveness of the improved financial crime control framework, with key focus on data automation as well as the automation of processes and controls such as customer due diligence and transaction monitoring.
- Continue to invest in resources and risk identification, prevention and control mechanisms to protect the Group's customers and investors and protect the Group from the facilitation of financial crime.
- Continue to focus on adherence to economic sanctions and the shifting regulatory environment, in line with new and updated UK financial crime regulations.
- Monitor the increasing complexity of financial crime threats and any potential or actual changes to the legislative framework to manage the emerging threats.

Top and emerging risks

Climate risk

Overview

Climate change and society's response to it, presents financial risks which impact the Group's objectives. The risks arise through two primary channels: the physical effects of climate change and the impact of changes associated with the transition to a lower carbon economy.

Climate risk is an ongoing long risk and a continued area of focus for the Group. The impact of climate risk on the Group's policies, customers, markets and products will be closely linked to the UK Government's policies on the transition to net zero and how other financial institutions embed climate risk in their business models.

Links to key performance metrics

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

How this could impact our strategy or business model

- Physical risks could lead to real impacts on the economy through business disruption, asset destruction and migration. This may drive market and credit losses to the Group through lower property and corporate asset values, lower household wealth and lower corporate profits. It may also result in potential for litigation where products do not deliver good outcomes for customers or there is a risk of greenwashing.
- The transition to a lower carbon economy could lead to lower growth and productivity and the potential for operational risks and underwriting losses.
- The transition to a low carbon economy presents an opportunity for the Group and inadequate preparations or delayed actions could impact on the Group's reputation with investors and the market, presenting a strategic risk to the Group through adverse selection.

How we manage this risk

- The Group considers the embedding of climate related matters to be a key initiative and, as such, has appointed the Chief Executive Officer and Chief Risk Officer as the responsible executives to oversee delivery of the Climate Change Plan.
- The Group has promoted climate risk as a principal risk in its own right, with a focus on high materiality areas including strategic risk and credit risk, particularly within the Real Estate business.
- The Group has developed a proportionate approach to climate change in line with the requirements of SS3/19 and focuses its assessment on term loans in the Enterprise and Retail Mortgage Brands franchises.
- The Group has partnered with leading climate data providers and consultancies to develop its understanding of physical and transition risk and has used this to develop its initial risk appetite statement and measures together with metrics, measures and Companies Act and TCFD climate risk disclosures in the Strategic Report.
- During 2023, the Group has continued tracking lending emissions measures within its Real Estate and Retail Mortgage Brands businesses and has also developed an emissions baseline for SME lending for the first time. The Group has also further developed its quantitative scenario analysis for its Real Estate, Retail Mortgage Brands and SME businesses.

Focus areas for 2024

- Extending climate measurement into all lending within scope of the Group's proportionate approach to climate change. Further embed climate risk into its lending policy and strategy.
- Further consider the Group's approach to support financing to a low carbon economy and how those plans align to meeting net zero targets.
- Deliver further progress in the £1.2 billion sustainable finance originations by 2025.

Principal risks

The risk of financial loss due to the failure.

Principal risks refer to the key risks the Group is exposed to. Policies and associated standards are maintained to support principal risks and provide guidance on how to achieve strategic objectives whilst managing the risk within defined risk appetite limits.

During the year, the Group conducted a review of its principal risk categories. The review was completed to reflect the growth of the Group and to ensure the RMF remained appropriate to support the delivery of the Group's objectives and associated risks. The review considered benchmarking of a number of banks that were of a size consistent with the Group's objectives over the planning horizon. As a result, the Group now identifies ten principal risks. These are summarised in the following table and signposts are provided to indicate where additional information can be found. Oversight of the Group's principal risks is outlined on page 91.

Certain information in the principal risks section is audited. Sections that are specifically marked as 'audited' are covered by the Independent Auditor's Report starting on page 180. All other sections are unaudited.

Principal risk	Definition	Principal sources of exposure
Credit risk *(Audited)* See pages 106 to 131	The risk that a borrowing client or treasury counterparty fails to repay some, or all, of the capital or interest advanced to them, due to lack of willingness to pay and/or lack of ability to pay. This can include credit risks that materialise during the life of the asset such as refinance risk or elevate due to deteriorating security/collateral value. Credit risk can be further divided into customer credit risk (from core lending activity) and treasury credit risk (from treasury activity). Credit risk also includes credit concentration risk, which is the risk of exposure to particular groups of customers, sectors or geographies that, uncontrolled, may lead to additional losses that the Shareholder or the market may not expect.	The principal source of customer credit risk is the Group's loans and advances to customers. Treasury credit risk exposure is limited to short-term deposits placed with leading UK banks, repo and reverse repo exposures and high quality liquid assets purchased for inclusion in the Group's liquidity buffer.
Market, liquidity and capital risk *(Partially audited)* See pages 132 to 143	**Market risk:** The risk of financial loss through unhedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.	Exposure to market risk arises from the Group's core activities of offering loans and deposits to customers. All financial assets held by the Group are non-trading.
	Liquidity risk: The risk that the Group is unable to meet its current and future financial obligations as they fall due and maintain stakeholder confidence, or is only able to do so at excessive cost. Liquidity risk includes funding risk, which is the risk that the Group is unable to maintain diverse funding sources and manage retail funding risk that can arise from concentrations of higher risk deposits.	The principal source of liquidity risk is the Group's retail and wholesale deposits, as well as affinity partnerships and bilateral/public securitisations.
	Capital risk: The risk that the Group has insufficient quantity and quality of capital to absorb losses over the cycle, cover regulatory requirements and/or to support its own growth plans	Exposure to capital risk could arise due to a depletion of the Group's capital resources as a result of the crystallisation of any of the risks to which it is exposed or an increase in minimum capital requirements.

Principal risks

Principal risk	Definition	Principal sources of exposure
Operational risk and resilience See page 144	The risk of loss resulting from inadequate or failed internal processes, people, data and MI availability, system failures, or from external events.	The principal sources of operational risk, as per the year-end risk and control self-assessment, are data, information, third-party suppliers and process execution.
Technology and cyber risk See page 145	The risk of loss arising from disruption to a business service or process due to an IT asset or service becoming unavailable or due to malicious activity (including a cyber attack). The risk to business objectives or future growth trajectory by failing to ensure that system requirements are aligned and fit for purpose.	The principal sources of technology and cyber risk are technology availability and infrastructure risk.
Strategic risk See page 146	The risk that the Group is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to ensure that the proposition, products and services remain relevant, the embedding of appropriate governance, change prioritisation, management of external partnerships and successful embedding of equality, diversion and inclusion.	The principal sources of strategic risk are lending growth, governance, management of partnerships, products and propositions and change governance.
Conduct risk See page 146	The risk that the Group's behaviour will result in poor customer outcomes through the delivery of the Group's products, propositions and services.	Conduct risk can manifest itself in a variety of ways including misconduct by employees, culture, the provision of products and services that meet customers' needs in a fair manner, and failure to address customer detriment quickly and fairly.
Compliance and regulatory risk See page 147	The risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.	The Group conducts its activities in a highly regulated market and the principal sources of exposure are linked to its lending and savings activities, data privacy, legal risk, and regulatory management.
Climate risk See page 148	The risk of financial loss, or loss of reputation, as a result of the Group's failure to successfully embed physical risk, transition risk, litigation risk and relevant industry standards.	The principal sources of exposure relate to financial and operational risks arising from physical risks, and the transition risk to a lower carbon economy within its lending portfolios.
Financial crime risk See page 148	The risk that the Group's processes may be used to commit financial crime.	Financial crime risk arises when the Group's systems and controls are circumvented for the purposes of perpetrating financial crime, including bribery and corruption, money laundering, sanctions, tax evasion, and the financing of terrorist activity.
Model risk See page 149	The risk of financial loss due to the failure to appropriately design, implement, monitor, validate, and use of models for their intended purpose.	The principal sources of exposure to model risk include the implementation of credit strategy in the lending portfolios, the risk of inadequate impairment coverage arising, and reputation risk arising from model design and implementation, model governance, and model usage.

Principal risks: Credit risk

Audited: *the credit risk section (pages 106 to 131) is covered in its entirety by the Independent Auditor's Report.*

This section specifically provides information about:

Managing credit risk *(audited)*

Key aspects relating to the management of credit risk are the implementation of robust credit risk approval processes and the execution of credit monitoring processes. These are detailed further below.

Credit risk approval processes

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

During the year ended 31 December 2023, the Group implemented a number of new controls to support the management of credit risk. These included the implementation of a new set of early warning indicators to support the identification of potential problem loans, the implementation of high risk sector reporting, key portfolio review meetings and the implementation of additional processes to support capacity planning in collections and the non-performing loans team to support the evolving economic environment. To recognise the rapid increase in interest rates during 2023, the Group implemented product transfers to support customers reaching the end of their fixed rate period. The Group also implemented a new credit grading model for all of its owner occupied mortgages, which has improved the proportion of customers covered by credit grading.

The Group appointed a new Chief Risk Officer for Retail Mortgage Brands to provide a shared service capability to both the TML and BML brands. The Group also appointed a new Group Chief Credit Officer in the second line risk function following the planned retirement of the current role holder.

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

The Group is a responsible lender and affordability remains a key area of focus for the Group. The Group's approach to affordability is set out in the Group's affordability policy, which is embedded within each of the customer franchise's lending guides and systems. This policy has been updated several times to ensure that it remains appropriate in the current environment and adequately reflects the increase in inflation, interest rate changes and expenditure updates seen during the year. The Group also uses a number of external systems to check affordability and has the ability to refer to Open Banking information, subject to policy and customer consent.

Credit monitoring

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

The Group's risk function oversees collections and arrears management processes, which are managed internally or by selected third parties.

Throughout 2023, the Group has continued to invest in its collections strategies and potential problem loan management teams to ensure that the Group is well positioned for a more challenging environment.

Impairment of financial assets *(audited)*

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

The Group calculates ECLs and recognises a 'loss allowance' in the statement of financial position for its financial assets measured at amortised cost and at fair value through other comprehensive income (FVOCI) and for its loan commitments. At 31 December 2023, the Group recognised a provision of £0.5m for lending attached to its lending pipeline where there is a probability of completion.

Principal risks: Credit risk

The following sections provide additional information regarding the measurement and calculation of ECLs, the application of judgemental adjustments to modelled ECLs, analysis of the loss allowance recognised in the statement of financial position and an assessment of the critical accounting judgements and estimates associated with the impairment of financial assets.

Measurement of expected credit losses *(audited)*

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

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

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

In relation to the above:

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

Assessing whether an asset shows a SICR and determining whether an asset is considered to be in default, or otherwise credit impaired, or is considered to be 'cured', are all identified as areas involving critical judgement and are detailed further starting on page 117.

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

Calculation of expected credit losses *(audited)*

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

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

Probability of default

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

In relation to loans and advances to customers and loan commitments, the PD is based on internal and external individual customer information that is updated for each reporting period. The Group operates both a model-based PD and a slotting approach.

The model-based PD is used for high volume portfolios such as those in Consumer Lending and for residential mortgages within Real Estate and Retail Mortgage Brands. Statistical modelling techniques are used to determine which borrower and account performance characteristics are predictive of default behaviour based on supportable evidence observed in historical data that is related to the group of accounts to which the model will be applied.

The slotting approach has been developed and implemented for the low volume and high value obligors in SME and large ticket Real Estate loans. Slotting in Real Estate lending applies to facilities over a set threshold. Both processes deliver a point-in-time measure of default.

During 2023, the Group developed a new credit grading model for all owner occupied mortgages originated through Enterprise Real Estate and the Retail Mortgage Brands. This means that a coverage ratio method is used only for Buy to Let mortgages originated through TML, certain other acquired mortgages in Real Estate and loans originated in Consumer Lending under the new motor finance platform loan agreement. Credit grading for these segments will be deployed as soon as it is practical to do so.

For the model-based portfolios, the measure of PD is based on information available to the Group from credit reference agencies and includes information from a broad range of financial services firms and internal product performance data and is applied at the borrower level. For the slotted portfolios, the measure of PD relates to attributes relating to financial strength, political and legal environment, asset/transaction characteristics, strength of sponsor and security. The Group is currently updating its slotting models, which is expected to be implemented in 2024. The Group does not expect this to lead to a material impact in ECL and will take twelve months to cover all loans through the annual review, with any impact considered a 2024 event.

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

Principal risks: Credit risk

Exposure at default

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

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

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

Loss given default

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

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

- **Real Estate and Retail Mortgage Brands:** the LGD is generally broken down into two parts. These include the Group's estimate of the probability of possession given default, combined with the loss given possession. The Group has continued to focus on the proportion of accounts that have not cured over an emergence period, rather than the proportion of accounts that enter possession in line with market best practice. The loss given possession is based on the Group's estimate of a shortfall, based on the difference between the property value after the impact of a forced sale discount plus a scenario specific market value decline and sale costs, and the loan balance with the addition of unpaid interest and fees and any first charge claims with regards to second charge residential mortgages.
- **SME:** the LGD is based on experience of losses on repossessed assets where the Group has collateral, or management judgement in situations where the Group has minimal experience of actual losses. For cases in Stage 3, the Group uses an individual impairment that considers a weighted average of alternative recovery options.
- **Consumer Lending:** the LGD uses an estimate of the expected write-off based on an established contractual debt sale agreement supplemented by analysis of recoveries for loans terminated or charged-off and the expected write-off for loans held for deceased and vulnerable customers or customers where there are outstanding complaints. There is no recovery portfolio.

Basis of calculation

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

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

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

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

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

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

Real Estate

- Product asset class (owner-occupied second-charge lending, buy-to-let, bridging finance and commercial/semi-commercial investment)
- Time on file
- Exposure value

SME

- Business unit (digital SME, structured finance, corporate lending and development finance)
- Time on file
- Collateral type

Consumer Lending

- Product type (personal loans and home improvement/holiday ownership loans)
- Time on file

Retail Mortgage Brands

- Product type (buy-to-let and owner-occupied lending)
- Time on file

These impairment judgements are reviewed by the Group Impairment Committee and Audit Committee.

Principal risks: Credit risk

Using forward-looking information in the calculation of expected credit losses

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

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

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

Judgemental adjustments to modelled ECLs *(audited)*

Limitations in the models used to calculate ECLs may be identified through the ongoing performance monitoring and assessment and validation of the outputs from the models. Consequently, in certain circumstances, the Group makes judgemental adjustments to the modelled output to ensure the overall loss allowance recognised adequately reflects the risk in the portfolio.

Judgemental adjustments take the form of post-model adjustments (PMAs) and overlays:

- **Post model adjustments:** PMAs are calculated at a granular level through data driven analysis to take into account particular attributes of the portfolio that have not been adequately captured by the models.
- **Overlays:** overlays are adjustments to the modelled outputs that do not meet the definition of a PMA. These include adjustments that are not calculated through modelled or data driven analysis.

All judgemental adjustments are carefully monitored and are reviewed and approved at least every six months by the Group Impairment Committee and Audit Committee, along with other key impairment judgements. Where appropriate, the attributes that drives the judgemental adjustments are incorporated into future model development.

In the current environment, judgemental adjustments have the potential to significantly impact the loss allowance recognised and involve the application of significant management judgement. Judgemental adjustments to modelled ECLs are therefore considered to be an area of critical judgement (see page 117).

During both reported years in Real Estate and Retail Mortgage Brands, the Group has specifically considered the impact of the increase to cost of living and the increase in interest rates, as the Group's models have not been trained over a comparable period in these areas. To reflect this, a cost of living PMA has been applied in both reported periods. There were no other PMAs or overlays applied.

We continue to assess there to be higher refinancing risk as many customers have not come to the end of their fixed rate period albeit the Group forecasts lower interest rates by 31 December 2024. The cost of living PMA reflects the refinance risk for high risk loans in the Real Estate and Retail Mortgage Brands segments that are maturing in the following 12 month period. The PMA also considers increased input prices and supply issues within the SME franchise.

The cost of living PMA is applied to customers with a similar risk profile as follows:

- **Real Estate:** the cost of living PMA is calculated on a portfolio segment basis and includes customers that are expected to exit their fixed rate agreement by 31 December 2024 and who are at higher refinance risk, demonstrated by lower credit grades and segments with lower debt service cover ratios. As at 31 December 2023, loans with a gross carrying amount of £222 million met these criteria and a PMA of £0.7 million was applied based on a Stage 2 ECL.
- **SME:** the cost of living PMA considers customers at risk of higher input prices, higher energy costs and supply chain issues that the models have not be trained on. The Group has developed a proprietary credit risk profiling tool to assess customers at risk and concluded that, as at 31 December 2023, loans with a gross carrying amount of £28 million were at risk. A PMA of £1.6 million was applied to reflect this.
- **Consumer Lending:** the cost of living PMA was removed following an update to the PD calibration of the portfolio and to reflect the seasoning of the portfolio.
- **Retail Mortgage Brands:** the cost of living PMA is calculated on a portfolio segment basis and includes customers that are expected to exit their fixed rate agreement by 31 December 2024 and who are at higher refinance risk, demonstrated by lower credit grades and segments with lower debt service cover ratios. As at 31 December 2023, loans with a gross carrying amount of £185 million met these criteria and a PMA of £0.5 million was applied based on a Stage 2 ECL.

For 2022, the cost of living PMA was all allocated to Stage 1 given the forward-looking nature of the risks on affordability driven by higher inflation and refinance risk given higher interest rates. For 2023, the cost of living PMA has been applied to Stage 1 and Stage 2 loans and loan commitments.

Principal risks: Credit risk

The cost of living PMA in all lending segments has reduced compared to the prior year. The reduction in the Real Estate and Retail Mortgage Brands PMA reflects an updated approach that considers the lifetime PD rather than Stage 2 coverage, which is deemed to increase accuracy. The reduction in the SME PMA reflects a more targeted PMA based on customer and sector risk. The removal of the Consumer Lending PMA reflects the seasoning of the portfolio and an increase in the PD calibration.

	2023					2022 (Restated)[1]				
	Real Estate £m	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Cost of living PMA	0.7	1.6	–	0.5	2.8	1.1	3.2	1.1	1.4	6.8
Total judgemental adjustments to modelled ECLs	0.7	1.6	–	0.5	2.8	1.1	3.2	1.1	1.4	6.8

Analysis of the loss allowance recognised *(audited)*

A summary of the loss allowance recognised in the statement of financial position in relation to each financial asset class is provided in the following tables. Except where noted, the loss allowance is recognised as a deduction from the gross carrying amount of the asset.

As at 31 December 2023	**Modelled ECL £m**	**Judgemental adjustments (See page 109) £m**	**Total £m**	**Of which: Stage 1 £m**	**Stage 2 £m**	**Stage 3[2] £m**
Cash and balances at central banks	<0.1	–	<0.1	<0.1	–	–
Loans and advances to banks	<0.1	–	<0.1	<0.1	–	–
Loans and advances to customers at amortised cost	127.9	2.3	130.2	47.3	29.0	53.9
Loans and advances to customers at FVOCI (recognised in FVOCI reserve)	6.2	0.5	6.7	3.4	2.2	1.1
Investment securities	<0.1	–	<0.1	<0.1	–	–
Loan commitments (recognised as a provision)	3.8	–	3.8	2.3	0.5	1.0
Total loss allowance recognised	**137.9**	**2.8**	**140.7**	**53.0**	**31.7**	**56.0**

As at 31 December 2022	Modelled ECL £m	Judgemental adjustments (See page 109) £m	Total £m	Of which: Stage 1 £m	Stage 2 £m	Stage 3[1] £m
Cash and balances at central banks	<0.1	–	<0.1	<0.1	–	–
Loans and advances to banks	<0.1	–	<0.1	<0.1	–	–
Loans and advances to customers at amortised cost	106.4	5.4	111.8	43.2	22.6	46.0
Loans and advances to customers at FVOCI (recognised in FVOCI reserve)	1.0	1.4	2.4	1.9	0.3	0.2
Investment securities	<0.1	–	<0.1	<0.1	–	–
Loan commitments (recognised as a provision)	0.5	–	0.5	0.3	–	0.2
Total loss allowance recognised	107.9	6.8	114.7	45.4	22.9	46.4

For loans and advances to customers at amortised cost, loans and advances to customers at fair value through other comprehensive income (FVOCI) and loan commitments, additional analysis of the loss allowance recognised is provided starting on page 111, 114 and 116, respectively.

For cash and balances at central banks, loans and advances to banks and investment securities, the loss allowance is immaterial, totalling less than £0.1 million in both reported years. Accordingly, no additional analysis is provided.

1 Information is based on the revised lending segments as detailed on page 87. Prior year comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.
2 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a loss allowance of £4.8 million (2022: £3.6 million).

Principal risks: Credit risk

Additional analysis of loans and advances to customers at amortised cost

For loans and advances to customers at amortised cost, the loss allowance is £130.2 million (31 December 2022: £111.8 million). The loss allowance is recognised as a deduction from the gross carrying amount of the asset (see Note 22 of the Financial Statements).

The following tables provide an analysis of loans and advances to customers at amortised cost by lending segment[1] and the year-end stage classification:

As at 31 December 2023	Enterprise		Consumer Lending £m	Retail Mortgage Brands £m	Total £m
	Real Estate £m	SME £m			
Stage 1	5,577.6	2,329.7	590.0	783.7	9,281.0
Stage 2	452.2	343.1	40.1	162.1	997.5
Stage 3[2]	173.2	82.6	6.9	89.4	352.1
Gross carrying amount	6,203.0	2,755.4	637.0	1,035.2	10,630.6
Stage 1	(8.7)	(20.9)	(16.4)	(1.3)	(47.3)
Stage 2	(4.1)	(16.1)	(8.1)	(0.7)	(29.0)
Stage 3[2]	(24.3)	(20.3)	(5.6)	(3.7)	(53.9)
Loss allowance	(37.1)	(57.3)	(30.1)	(5.7)	(130.2)
Carrying amount[3]	6,165.9	2,698.1	606.9	1,029.5	10,500.4
Loss allowance coverage					
Stage 1	0.2%	0.9%	2.8%	0.2%	0.5%
Stage 2	0.9%	4.7%	20.2%	0.4%	2.9%
Stage 3	14.0%	24.6%	81.2%	4.1%	15.3%
Total loss allowance coverage	0.6%	2.1%	4.7%	0.6%	1.2%

As at 31 December 2022 (Restated)[1]	Enterprise		Consumer Lending £m	Retail Mortgage Brands £m	Total £m
	Real Estate £m	SME £m			
Stage 1	4,470.0	2,299.6	487.0	1,022.9	8,279.5
Stage 2	535.6	224.5	38.1	99.1	897.3
Stage 3[2]	149.0	84.0	4.4	50.5	287.9
Gross carrying amount	5,154.6	2,608.1	529.5	1,172.5	9,464.7
Stage 1	(6.8)	(19.7)	(14.1)	(2.6)	(43.2)
Stage 2	(3.7)	(11.6)	(6.7)	(0.6)	(22.6)
Stage 3[2]	(16.4)	(23.5)	(3.5)	(2.6)	(46.0)
Loss allowance	(26.9)	(54.8)	(24.3)	(5.8)	(111.8)
Carrying amount[3]	5,127.7	2,553.3	505.2	1,166.7	9,352.9
Loss allowance coverage					
Stage 1	0.2%	0.9%	2.9%	0.3%	0.5%
Stage 2	0.7%	5.2%	17.6%	0.6%	2.5%
Stage 3	11.0%	28.0%	79.5%	5.1%	16.0%
Total loss allowance coverage	0.5%	2.1%	4.6%	0.5%	1.2%

1 Information is based on the revised lending segments as detailed on page 87. Prior year comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

2 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £22.3 million, of which £14.9 million relates to Real Estate, £0.5 million to SME and £6.9 million to Retail Mortgage Brands (2022: £19.8 million; £16.0 million Real Estate, £0.7 million SME and £3.1 million Retail Mortgage Brands). The associated loss allowance is £4.8 million, of which £4.6 million relates to Real Estate and a £0.2 million relates to Retail Mortgage Brands (2022: £3.6 million; £3.5 million Real Estate and £0.1 million Retail Mortgage Brands).

3 Excludes fair value adjustments for hedged risk recognised on loans and advances to customer.

Principal risks: Credit risk

The following tables provide an analysis of loans and advances to customers at amortised cost by agreement type and the year-end stage classification:

As at 31 December 2023	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	8,863.1	25.4	392.5	9,281.0
Stage 2	967.7	0.4	29.4	997.5
Stage 3[1]	342.5	1.2	8.4	352.1
Gross carrying amount	10,173.3	27.0	430.3	10,630.6
Stage 1	(45.5)	(0.2)	(1.6)	(47.3)
Stage 2	(27.1)	–	(1.9)	(29.0)
Stage 3[1]	(47.5)	(0.8)	(5.6)	(53.9)
Loss allowance	(120.1)	(1.0)	(9.1)	(130.2)
Carrying amount[2]	10,053.2	26.0	421.2	10,500.4
Loss allowance coverage				
Stage 1	0.5%	0.8%	0.4%	0.5%
Stage 2	2.8%	0.0%	6.5%	2.9%
Stage 3	13.9%	66.7%	66.7%	15.3%
Total loss allowance coverage	1.2%	3.7%	2.1%	1.2%

As at 31 December 2022	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	7,894.2	34.5	350.8	8,279.5
Stage 2	880.0	2.7	14.6	897.3
Stage 3[1]	269.5	2.5	15.9	287.9
Gross carrying amount	9,043.7	39.7	381.3	9,464.7
Stage 1	(41.2)	(0.2)	(1.8)	(43.2)
Stage 2	(21.1)	(0.1)	(1.4)	(22.6)
Stage 3[1]	(37.3)	(1.7)	(7.0)	(46.0)
Loss allowance	(99.6)	(2.0)	(10.2)	(111.8)
Carrying amount[2]	8,944.1	37.7	371.1	9,352.9
Loss allowance coverage				
Stage 1	0.5%	0.6%	0.5%	0.5%
Stage 2	2.4%	3.7%	9.6%	2.5%
Stage 3	13.8%	68.0%	44.0%	16.0%
Total loss allowance coverage	1.1%	5.0%	2.7%	1.2%

1 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £22.3 million of which £22.3 million relates to loan receivables, £nil million to finance lease receivables, £nil million to instalment credit receivables (2022: £19.8 million, £19.8 million loan receivables, £nil million finance lease receivables, £nil million instalment credit receivables). The associated loss allowance is £4.8 million, of which £4.8 million relates to loan receivables, £nil million to finance lease receivables and £nil million to instalment credit receivables (2022: £3.6 million, £3.6 million loan receivables, £nil million finance lease receivables and £nil million instalment credit receivables).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table provides an analysis of movements during the year in the loss allowance associated with loans and advances to customers at amortised cost. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year. Where loans have been added (including originations, purchases and acquisitions through business combinations) or removed (including derecognitions and disposals) during the year, the full year movement is reflected on the relevant addition/disposal row.

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	43.2	22.6	46.0	111.8	25.8	15.2	35.0	76.0
ECL charge/(credit) for the year								
Transfer from Stage 1	(3.1)	2.6	0.5	–	(2.6)	2.1	0.5	–
Transfer from Stage 2	3.7	(8.0)	4.3	–	3.1	(4.3)	1.2	–
Transfer from Stage 3	0.4	2.0	(2.4)	–	–	3.0	(3.0)	–
New financial assets originated or purchased	19.7	7.7	2.6	30.0	17.2	3.6	6.0	26.8
Financial assets derecognised (excluding disposals)	(14.9)	(5.6)	(20.0)	(40.5)	(5.2)	(3.1)	(9.5)	(17.8)
Changes in credit risk[1]	(1.7)	7.7	24.3	30.3	4.9	6.1	15.8	26.8
Net ECL charge/(credit) for the year	4.1	6.4	9.3	19.8	17.4	7.4	11.0	35.8
Other movements								
Other adjustments	–	–	(1.4)	(1.4)	–	–	–	–
Total other movements	–	–	(1.4)	(1.4)	–	–	–	–
Total movement in loss allowance	4.1	6.4	7.9	18.4	17.4	7.4	11.0	35.8
As at 31 December	47.3	29.0	53.9	130.2	43.2	22.6	46.0	111.8

The net ECL charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets at amortised cost (see Note 19 of the Financial Statements). An analysis of this charge by lending segment[2] is provided in the following table.

	2023 £m	2022 (Restated)[2] £m
Real Estate	10.2	6.3
SME	3.9	16.0
Consumer Lending	5.8	10.2
Retail Mortgage Brands	(0.1)	3.3
Net ECL charge for the year	19.8	35.8

The lower net ECL charge in the current year reflects an increase in loan book and changes in credit risk from increased arrears and watch list offset by derecognised loans through charge-off and a reduction in the cost of living PMA. The net ECL charge also includes migrations to Stage 2 and Stage 3 including Consumer where the portfolio has seasoned following the targeted re-entry into the Personal loans segment. This was partially offset by the reduction in the cost of living PMA (see page 110).

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

2 Information is based on the revised lending segments as detailed on page 87. Prior year comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Principal risks: Credit risk

Movements in the gross carrying amount of loans and advances to customers at amortised cost during the year that contributed to the changes in the associated loss allowance during the year are shown in the following table. The table is compiled using the same methodology as described for the loss allowance movement table on the previous page.

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	8,279.5	897.3	287.9	9,464.7	7,315.7	831.2	221.6	8,368.5
Movements in gross carrying amount								
Transfer from Stage 1	(569.2)	465.8	103.4	–	(590.2)	478.0	112.2	–
Transfer from Stage 2	279.6	(338.6)	59.0	–	295.0	(339.7)	44.7	–
Transfer from Stage 3	7.0	21.5	(28.5)	–	0.3	25.5	(25.8)	–
New financial assets originated or purchased	3,296.7	146.5	22.2	3,465.4	2,761.7	108.6	35.8	2,906.1
Financial assets derecognised (excluding disposals)	(1,878.0)	(187.8)	(85.9)	(2,151.7)	(1,396.2)	(174.6)	(71.4)	(1,642.2)
Net changes in lending[1]	(134.6)	(7.2)	(6.0)	(147.8)	(106.8)	(31.7)	(29.2)	(167.7)
Total movement in gross carrying amount	1,001.5	100.2	64.2	1,165.9	963.8	66.1	66.3	1,096.2
As at 31 December	9,281.0	997.5	352.1	10,630.6	8,279.5	897.3	287.9	9,464.7

Additional analysis of loans and advances to customers at FVOCI

For loans and advances to customers at FVOCI, the loss allowance is £6.7 million (2022: £2.4 million). The loss allowance does not reduce the carrying amount of these assets, which remain at fair value. Instead, the loss allowance is recognised in the FVOCI reserve.

The following table provides an analysis of loans and advances to customers at FVOCI by year-end stage classification. All FVOCI loans are attributable to the Retail Mortgage Brands lending segment[2] and all represent mortgage loan receivables.

	2023 £m	2022 £m
Stage 1	2,546.4	1,285.4
Stage 2	239.3	28.8
Stage 3	26.3	2.2
Carrying amount[3]	2,812.0	1,316.4
Stage 1	(3.4)	(1.9)
Stage 2	(2.2)	(0.3)
Stage 3	(1.1)	(0.2)
Loss allowance	(6.7)	(2.4)
Loss allowance coverage		
Stage 1	0.1%	0.1%
Stage 2	0.9%	1.0%
Stage 3	4.2%	9.1%
Total loss allowance coverage	0.2%	0.2%

1 Net changes in lending includes repayments, additional drawdowns and accrued interest.
2 This is based on the revised lending segments as detailed on page 87. Prior to this change, FVOCI loans were attributable to Real Estate and TML Mortgages. Following the changes to lending segments, all FVOCI loans are now included in the new 'Retail Mortgage Brands' segment.
3. Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table provides an analysis of movements during the year in the loss allowance associated with loans and advances to customers at FVOCI. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year. Where loans have been added (including originations, purchases and acquisitions through business combinations) or removed (including derecognitions and disposals) during the year, the full year movement is reflected on the relevant addition/disposal row. Loans originated from 1 January 2022 within Retail Mortgage Brands are considered under the Group's originate to distribute strategy.

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	1.9	0.3	0.2	2.4	–	–	–	–
ECL charge for the year								
Transfer from Stage 1	(0.1)	0.1	–	–	–	–	–	–
Transfer from Stage 2	–	(0.1)	0.1	–	–	–	–	–
Transfer from Stage 3	–	–	–	–	–	–	–	–
New financial assets originated or purchased	1.6	0.8	0.2	2.6	1.9	0.3	0.2	2.4
Financial assets derecognised (excluding disposals)	–	(0.1)	(0.2)	(0.3)	–	–	–	–
Changes in credit risk[1]	–	1.2	0.8	2.0	–	–	–	–
Net ECL charge for the year	1.5	1.9	0.9	4.3	1.9	0.3	0.2	2.4
As at 31 December	3.4	2.2	1.1	6.7	1.9	0.3	0.2	2.4

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

The net ECL charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 19 of the Financial Statements).

The higher net ECL charge in the current period is predominantly attributable to growth in the loan book due to originations and loans acquired as part of the Bluestone Mortgages Limited acquisition and portfolio seasoning which is reflected in an increase in arrears particularly in Bluestone Mortgages Limited. Changes in the economic outlook included within the calculation of ECLs is another contributory factor.

Movements in the carrying amount of loans and advances to customers at FVOCI during the year (excluding fair value adjustments for hedged risk) are shown in the following table. The table is compiled using the same methodology as described for the loss allowance movement table above.

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	1,285.4	28.8	2.2	1,316.4	–	–	–	–
Movements in carrying amount								
Transfer from Stage 1	(98.4)	86.0	12.4	–	–	–	–	–
Transfer from Stage 2	1.9	(5.1)	3.2	–	–	–	–	–
Transfer from Stage 3	0.4	0.4	(0.8)	–	–	–	–	–
New financial assets originated or purchased	1,242.9	143.0	4.4	1,390.3	1,313.3	29.5	2.2	1,345.0
Financial assets derecognised (excluding disposals)	(24.4)	(0.4)	(0.7)	(25.5)	–	–	–	–
Net changes in lending[2]	128.6	(13.4)	5.7	120.9	(11.2)	(0.3)	–	(11.5)
Change in fair value	10.0	–	(0.1)	9.9	(16.7)	(0.4)	–	(17.1)
Total movement in carrying amount	1,261.0	210.5	24.1	1,495.6	1,285.4	28.8	2.2	1,316.4
As at 31 December	2,546.4	239.3	26.3	2,812.0	1,285.4	28.8	2.2	1,316.4

Principal risks: Credit risk

Additional analysis of loan commitments

The loss allowance for loan commitments is £3.8 million (2022: £0.5 million). The loss allowance is recognised as a provision (see Note 33 of the Financial Statements).

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

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	0.3	–	0.2	0.5	0.3	0.1	0.3	0.7
ECL charge/(credit) for the year								
Transfer from Stage 1	–	–	–	–	–	–	–	–
Transfer from Stage 2	–	–	–	–	–	–	–	–
Transfer from Stage 3	–	–	–	–	0.2	–	(0.2)	–
New loan commitments	1.2	–	–	1.2	0.1	–	–	0.1
Loan commitments derecognised	–	–	(0.2)	(0.2)	(0.2)	–	–	(0.2)
Changes in credit risk	0.8	0.5	1.0	2.3	(0.1)	(0.1)	0.1	(0.1)
Net ECL charge/(credit) for the year	2.0	0.5	0.8	3.3	–	(0.1)	(0.1)	(0.2)
As at 31 December	2.3	0.5	1.0	3.8	0.3	–	0.2	0.5

The net ECL charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 19 of the Financial Statements).

Movements in the gross loan commitment during the year that contributed to the changes in the associated loss allowance during the year are shown in the following table. The table is compiled using the same methodology as described for the loss allowance movement table above.

	2023				2022			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	1,570.0	57.0	1.7	1,628.7	1,176.8	45.9	8.9	1,231.6
Movements in gross loan commitments								
Transfer from Stage 1	(24.9)	20.8	4.1	–	(46.6)	38.4	8.2	–
Transfer from Stage 2	–	(12.0)	12.0	–	23.0	(25.6)	2.6	–
Transfer from Stage 3	–	–	–	–	2.5	1.5	(4.0)	–
New loan commitments	361.5	4.9	0.1	366.5	416.7	8.5	–	425.2
Loan commitments derecognised	(247.7)	(19.0)	(0.6)	(267.3)	(351.4)	–	(11.2)	(362.6)
Net changes in commitments	(450.8)	5.4	(1.7)	(447.1)	349.0	(11.7)	(2.8)	334.5
Total movement in gross loan commitments	(361.9)	0.1	13.9	(347.9)	393.2	11.1	(7.2)	397.1
As at 31 December	1,208.1	57.1	15.6	1,280.8	1,570.0	57.0	1.7	1,628.7

Principal risks: Credit risk

Critical judgements relating to the impairment of financial assets *(audited)*

The measurement of ECLs requires the Group to make a number of judgements. The judgements that are considered to have the most significant effect on the amounts in the financial statements are:

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

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

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

A further area of judgement that is considered to have a significant effect on amounts in the financial statements is the application of judgemental adjustments to modelled ECLs. Judgemental adjustments are applied to the modelled ECL amount when the Group judges that the modelled ECL does not adequately reflect the expected risk in the portfolio, or where there is a risk that the model cannot be expected to pick up based on previous experience. Details of judgemental adjustments to the modelled ECL are provided on page 109.

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

Assessing whether there has been a significant increase in credit risk

If a financial asset shows a SICR, it is transferred to Stage 2 and the ECL recognised changes from a 12-month ECL to a lifetime ECL. The assessment of whether there has been a SICR requires a high level of judgement as detailed below. The assessment of whether there has been a SICR also incorporates forward-looking information (see page 109).

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

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

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

Real Estate: residential and commercial investment mortgages	
• If external mortgage payments are in arrears from the credit reference agencies. The external arrears information is statistically a lead indicator of financial difficulties and potential arrears on the loan book; • if the loan account is forborne; • if the loan enters on to amber watchlist; • for short-term loans with a modelled PD: if the PD > 0.38% and the absolute movement in remaining lifetime PD is more than 1.5 times the estimate at origination;	• for term loans with a modelled PD since origination: if the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; or • for all portfolios originated as slotted, or that have ever been slotted during its life: if the PD > 0.38% and the absolute movement in remaining lifetime PD is more than three times the estimate at origination.
Real Estate: residential owner-occupied mortgages	
• All exposures are graded under the modelled approach. If the modelled PD > 1.76% and the absolute movement in remaining lifetime PD is more than five times the estimate at origination; • if the customer has ever been six or more payments in arrears on any fixed term account at the credit reference agency;	• if the customer has missed a mortgage payment in the last six months at the credit reference agency; • if the customer has missed 2 or more mortgage payments; • if the loan account is forborne.
SME	
• For accounts within the digital SME portfolio: if the absolute movement in the remaining lifetime PD is more than two times the estimate at origination;	• if the customer has missed 2 or more mortgage payments; • if the loan account is forborne; or • if the loan enters on to amber watchlist.
Consumer Lending	
• Non-personal loans: if the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; • personal loans: if the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination;	• if there are county court judgements registered at the credit reference agencies of > £150 in the last 12-months or > £1,000 in last three years; • if the customer has missed 2 or more mortgage payments; or • if the loan account is forborne.
Retail Mortgage Brands	
• All exposures are graded under the modelled approach. • If the modelled Bluestone PD > 0.76% and the absolute movement in remaining lifetime PD is more than five times the estimate at origination;	• If the modelled TML PD > 1.03% and the absolute movement in remaining lifetime PD is more than five times the estimate at origination; • if the customer has missed 2 or more mortgage payments; or • if the loan account is forborne.

Principal risks: Credit risk

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

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

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

Determining whether a financial asset is in default or is credit-impaired

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

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default. These criteria include:

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

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

Determining whether a financial asset is cured

The Group considers a financial asset to be 'cured', and therefore reclassifies back to a lower stage, when the assessed criteria that caused movement into the higher stage are no longer present.

The following curing rules are applied by the Group:

- For Stage 3 loans with forbearance arrangements in place: the loan must first successfully complete its 12-month curing period to be transferred to Stage 2. Following this, the loan must successfully complete a 24-month forbearance probation period before the forbearance classification can be discontinued and it can be returned to Stage 1.
- For Stage 3 loans that have cured without forbearance: the loan must complete a 12-month probation in Stage 2 prior to returning to Stage 1.
- For loans in Stage 2 as a result of arrears: the arrears must be cured for a period of 180 days prior to returning to Stage 1.
- For loans in Stage 2 as a result of an increase in PD: a probation period of 90 days must be completed prior to returning to Stage 1.
- For Stage 2 loans with forbearance measures in place: the loan must complete a 24-month forbearance probation period before the forbearance classification can be discontinued and it can be returned to Stage 1.
- For loan products such as revolving credit facilities: the loan must be in 'amber watchlist' (monitoring) for 180-days prior to returning to Stage 1 and, if it has forbearance measures in place, it must complete a 24-month forbearance probation period, throughout which it must remain in 'amber watchlist', before the forbearance classification can be discontinued and it can be returned to Stage 1.

The following table provides a breakdown of loans and advances to customers (including both loans measured at amortised cost and those measured at FVOCI) in Stage 2 and 3 to show the proportion that are in a cure period:

	Stage 2		**Stage 3**	
As at 31 December 2023	**Gross carrying amount £m**	**Loss allowance £m**	**Gross carrying amount £m**	**Loss allowance £m**
Not in cure period	1,000.2	(31.9)	355.8	(61.9)
In cure period	140.3	(1.8)	31.0	(5.4)
Total	1,140.5	(33.7)	386.8	(67.3)

	Stage 2		Stage 3	
As at 31 December 2022	Gross carrying amount £m	Loss allowance £m	Gross carrying amount £m	Loss allowance £m
Not in cure period	788.0	(21.8)	244.6	(42.6)
In cure period	85.1	(1.1)	38.1	(4.4)
Total	873.1	(22.9)	282.7	(47.0)

Principal risks: Credit risk

Critical accounting estimates relating to the impairment of financial assets *(audited)*

The calculation of ECLs requires the Group to make a number of assumptions and estimates. The accuracy of the ECL calculation would be impacted by movements in the forward-looking economic scenarios used, or the probability weightings applied to these scenarios and by unanticipated changes to model assumptions that differ from actual outcomes.

The key assumptions and estimates that, depending on a range of factors, could result in a material adjustment in the next financial year relate to the use of forward-looking information in the calculation of ECLs and the inputs and assumptions used in the ECL models. Additional information about both of these areas is set out below.

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

Forward-looking information

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

The Group uses four forward-looking economic scenarios: a base case (central view), an alternative upside scenario, an alternative moderate downside scenario and an alternative severe downside scenario.

Scenarios are developed to reflect the Group's expectations based on information available at the time (which may differ to actual outcomes).

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

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

The nature and shape of the economic scenarios reflect the outlook of the UK economy.

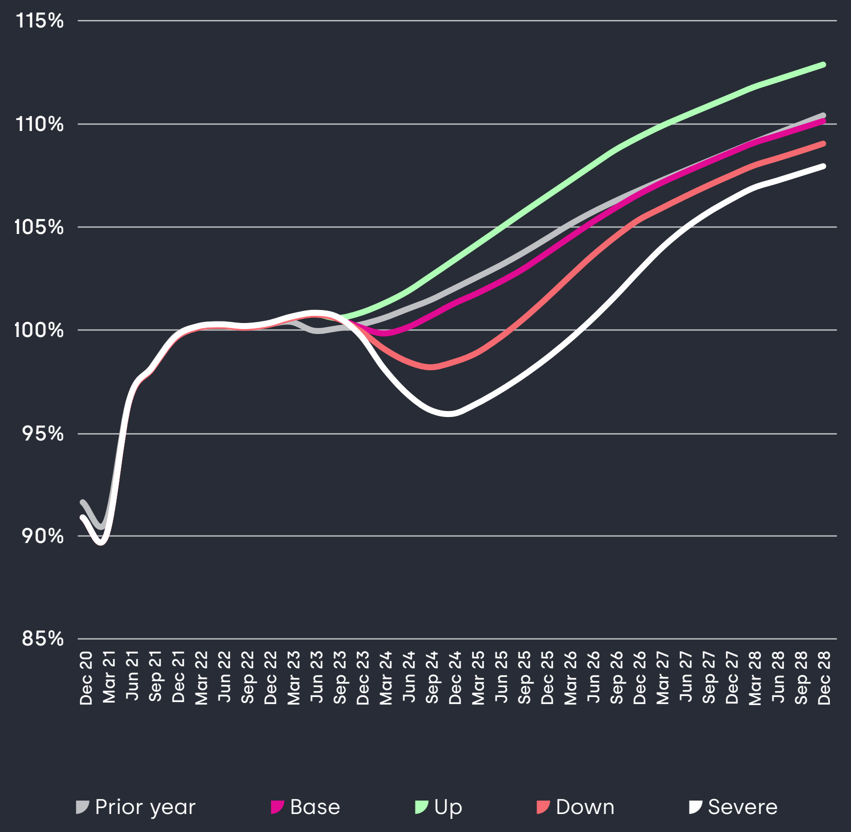
As at 31 December 2023, the economic scenarios used reflect that the UK economy is close to recession and no growth is expected in 2024. The scenarios reflect a higher for longer rate scenario with Bank Rate not expected to reduce until late in 2024, with signals that the Bank of England is prepared to act again if needed. The risk outlook is impacted by geopolitical tensions from the Middle East escalating and impacting on the price of oil.

This is in contrast to the economic scenarios used as at 31 December 2022, which reflected the expectation that the UK economy would enter a shallow recession in all scenarios. The scenarios incorporated the elevated interest rate environment present at the time and the expectation that interest rates would remain elevated for longer, that there would be high inflation, and the potential for a fall in house prices as increased interest rates reduced affordability, particularly for first-time buyers.

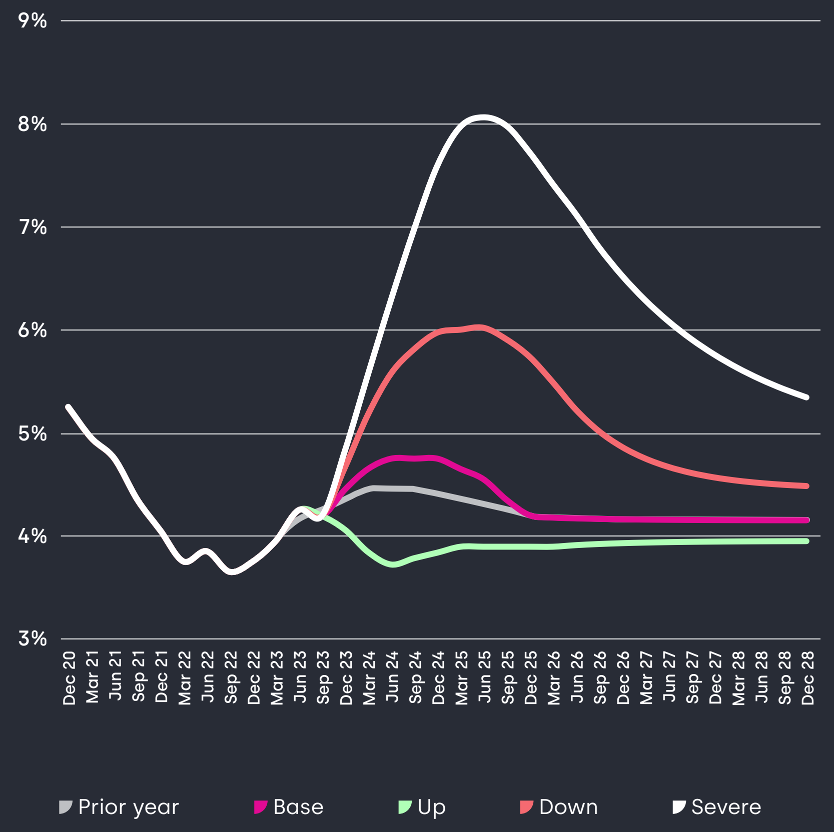
Principal risks: Credit risk

A summary of the economic variables used in both reported years are detailed in the following charts and tables:

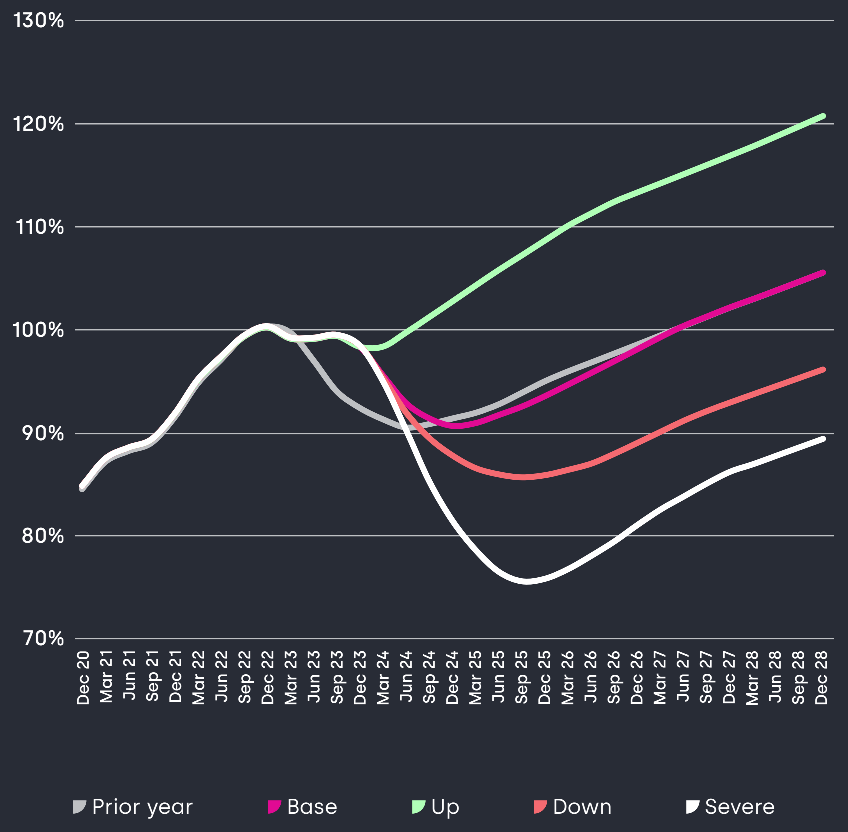
UK Real GDP (Indexed Dec 2022 = 100)



UK Unemployment (%)



UK Residential Property Prices (Indexed Dec 2022 = 100)



Principal risks: Credit risk

As at 31 December 2023		2024	2025	2026	2027	2028
GDP – % average change year-on-year	Base	0.0%	2.2%	2.8%	2.2%	1.6%
	Upside	1.6%	3.0%	2.9%	2.1%	1.6%
	Downside	(1.9%)	1.6%	3.9%	2.7%	1.7%
	Severe downside	(3.7%)	0.7%	3.8%	4.1%	2.1%
Bank Rate (%)	Base	5.00%	3.75%	3.25%	2.50%	2.25%
	Upside	4.50%	3.50%	3.00%	2.25%	2.25%
	Downside	5.50%	4.00%	3.50%	2.75%	2.25%
	Severe downside	6.00%	5.00%	4.50%	3.50%	2.50%
UK Unemployment (%)	Base	4.7%	4.2%	4.1%	4.1%	4.1%
	Upside	3.8%	3.8%	3.9%	3.9%	3.9%
	Downside	5.9%	5.7%	4.8%	4.5%	4.4%
	Severe downside	7.5%	7.7%	6.5%	5.7%	5.3%
Consumer Price Index – % change year-on-year	Base	2.0%	2.0%	2.0%	2.0%	2.0%
	Upside	0.9%	2.0%	2.0%	2.0%	2.0%
	Downside	3.2%	2.0%	2.0%	2.0%	2.0%
	Severe downside	5.7%	2.1%	2.0%	2.0%	2.0%
UK Residential House Price Index – % change year-on-year	Base	(7.8%)	3.2%	4.9%	4.2%	3.3%
	Upside	4.5%	5.8%	4.3%	3.2%	3.3%
	Downside	(10.8%)	(2.2%)	3.7%	4.4%	3.4%
	Severe downside	(17.2%)	(6.9%)	6.9%	6.3%	3.7%

As at 31 December 2022		2023	2024	2025	2026	2027
GDP – % average change year-on-year	Base	(1.1%)	1.8%	3.1%	3.3%	2.0%
	Upside	0.5%	3.1%	3.0%	3.0%	2.0%
	Downside	(1.7%)	0.7%	3.3%	3.3%	2.0%
	Severe downside	(3.0%)	(0.7%)	3.4%	4.5%	2.8%
Bank Rate (%)	Base	3.50%	2.75%	2.50%	2.25%	2.25%
	Upside	3.25%	2.50%	2.25%	2.25%	2.25%
	Downside	4.25%	3.75%	3.00%	2.25%	2.25%
	Severe downside	5.00%	4.75%	3.75%	2.75%	2.25%
UK Unemployment (%)	Base	4.8%	4.5%	4.1%	4.1%	4.1%
	Upside	3.5%	3.7%	3.9%	3.9%	3.9%
	Downside	5.7%	5.9%	4.9%	4.4%	4.4%
	Severe downside	6.9%	7.8%	6.2%	5.1%	4.7%
Consumer Price Index – % change year-on-year	Base	6.6%	2.0%	2.0%	2.0%	2.0%
	Upside	3.8%	2.0%	2.0%	2.0%	2.0%
	Downside	9.7%	2.2%	2.0%	2.0%	2.0%
	Severe downside	12.5%	6.2%	2.1%	2.0%	2.0%
UK Residential House Price Index – % change year-on-year	Base	(8.4%)	(0.3%)	3.7%	3.4%	3.6%
	Upside	3.4%	3.1%	4.3%	4.0%	3.6%
	Downside	(10.8%)	(3.9%)	0.6%	3.1%	3.6%
	Severe downside	(15.7%)	(10.4%)	4.3%	4.8%	3.9%

Principal risks: Credit risk

The probability weightings applied to the above scenarios are another area of estimation uncertainty. They are generally set to ensure that there is an asymmetry in the ECL. The probability weightings applied to the four economic scenarios used are as follows:

	2023	2022
Base	50%	40%
Upside	10%	10%
Downside	30%	35%
Severe downside	10%	15%

In determining the probability weightings, the Group has regularly considered the nature and probability of the alternative downside scenarios. The forecasts have largely evolved as expected since 30 June 2023 and, with current pricing suggesting that interest rates are at or close to their peak, the probability weightings have been updated to reflect a slightly less risky outlook in the UK, with the downside and severe downside scenario weightings decreasing by 5% each compared to 31 December 2022 to 30% and 10%, respectively, with a corresponding increase in the base case weighting.

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

The calculation of ECLs is sensitive to the assumptions made regarding the forward-looking scenarios used and the probability weightings applied. The Group performs sensitivity analysis to assess the impact on the loss allowance recognised on its loans and advances to customers.

The following table shows the loss allowance as at 31 December 2023 for loans and advances to customers at amortised cost and FVOCI, loan commitments based on the probability-weighted multiple economic scenarios, as recognised in the statement of financial position, and the impact on this loss allowance if each individual forward-looking scenario was weighted at 100%.

In relation to the below analysis, in each of the scenarios, judgemental adjustments to modelled ECLs (PMAs and overlays) are assumed to be constant and have been added back into each of the scenarios.

		Increase/(decrease) in loss allowance if scenario weighted at 100%			
As at 31 December 2023	**Probability – weighted loss allowance per statement of financial position £m**	**Base £m**	**Upside £m**	**Downside £m**	**Severe downside £m**
Real Estate	37.4	(1.6)	(8.0)	2.2	9.2
SME	60.6	(1.0)	(4.5)	1.4	5.0
Consumer Lending	30.2	(0.7)	(1.2)	0.5	2.5
Retail Mortgage Brands	12.5	(0.7)	(2.4)	0.8	3.4
Total	140.7	(4.0)	(16.1)	4.9	20.1

Principal risks: Credit risk

Model estimations

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

A summary of the key assumptions and sensitivity analysis as at 31 December 2023 is provided in the following table.

Assumption	Sensitivity analysis
PD	• A 10% increase in the PD for each customer would increase the total loss allowance on loans and advances to customers at amortised cost by £7.7 million.
LGD: Real Estate and Retail Mortgages Brands[1] • Property value • Forced sale discount	• A 10% absolute reduction in property prices would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate segments by £10.1 million. • A 10% absolute reduction in property prices would increase the loss allowance on loans and advances to customers at FVOCI and amortised cost in Retail Mortgage Brands segments by £3.0 million. • A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate segments by £6.8 million. • A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers at FVOCI and amortised cost in Retail Mortgage Brands segments by £2.0 million.
LGD: SME • Absolute LGD value	• A 5% absolute increase in the LGD applied would increase the total loss allowance on loans and advances to customers at amortised cost in SME by £6.4 million.
LGD: Consumer Lending • Loss given charge-off	• A 10% absolute increase in the loss given charge-off would increase the loss allowance on loans and advances to customers at amortised cost in Consumer Lending by £3.7 million.

Exposure to credit risk *(audited)*

The following table presents the Group's maximum exposure to credit risk before taking into account any collateral held or other credit risk enhancements (unless such enhancements meet accounting offsetting enhancements).

For financial assets, the maximum exposure to credit risk is the carrying amount. For the purposes of this disclosure, fair value adjustments for hedged risk recognised on loans and advances to customers are not included. For loan commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

	2023 £m	2022 £m
Cash and balances at central banks	**2,188.1**	2,037.1
Loans and advances to banks	**480.7**	263.6
Loans and advances to customers at amortised cost	**10,500.4**	9,352.9
Loans and advances to customers at FVOCI	**2,812.0**	1,316.4
Investment securities	**822.1**	691.0
Derivative financial assets	**252.7**	330.7
Loan commitments	**1,280.8**	1,628.7
Maximum exposure to credit risk	**18,336.8**	15,620.4

1 For the purpose of sensitivity analysis, all calculations are applied at account level, however the Retail Mortgage Brands parameters are grouped with the Real Estate while the Group develops its methodology.

Principal risks: Credit risk

To assess exposure to credit risk, the Group has developed a credit risk grading system, as set out in the table below, which maps to a common master grading scale. This credit risk grading system is applied to the Group's financial assets for which a loss allowance is recognised, together with loan commitments. The grading system consists of 25 grades on a master grading scale, reflecting varying degrees of risk and default. Responsibility for setting risk grades lies with the approval point for the risk or committee, as appropriate. Risk grades are subject to regular reviews by the Group's risk function.

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

The following information provides an analysis of the Group's exposures to credit risk by credit risk grade and year-end stage classification. The credit risk grade refers to the grades defined in the preceding table. The year-end stage classification refers to the IFRS 9 stage, as defined on page 107. It should be noted that the credit risk grading is a point-in-time assessment, whereas the year-end stage classification is determined based on the change in credit risk since initial recognition. As such, for non-credit impaired financial assets, there is not a direct relationship between the credit risk grade and stage classification.

For cash and balances at central banks, loans and advances to banks and investment securities, all exposures are graded as low risk and are in Stage 1 in both reported years.

For loans and advances to customers at amortised cost, FVOCI, and loan commitments, analysis is provided in the following tables. The reduction in ungraded loans during 2023 is due to the implementation of a new credit grading model for owner occupied mortgages in Real Estate and the Retail Mortgage brands. TML Buy to Let loans and advances to customers at FVOCI and certain acquired portfolios held at amortised cost remain ungraded. The Group is planning to develop a new credit grading model for Buy to Let, consequently, credit grading information is not provided for these loans for this reporting period.

				2023				2022
Loans and advances to customers at amortised cost	**Stage 1 £m**	**Stage 2 £m**	**Stage 3[1] £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3[1] £m	Total £m
Low risk	1,077.9	14.8	1.2	1,093.9	923.2	8.2	–	931.4
Medium risk	4,758.2	180.6	8.3	4,947.1	3,210.4	141.4	1.4	3,353.2
High risk	2,999.7	787.7	329.7	4,117.1	3,168.9	648.3	235.8	4,053.0
Ungraded	445.2	14.4	12.9	472.5	977.0	99.4	50.7	1,127.1
Gross carrying amount	9,281.0	997.5	352.1	10,630.6	8,279.5	897.3	287.9	9,464.7
Loss allowance	(47.3)	(29.0)	(53.9)	(130.2)	(43.2)	(22.6)	(46.0)	(111.8)
Carrying amount[2]	9,233.7	968.5	298.2	10,500.4	8,236.3	874.7	241.9	9,352.9

				2023				2022
Loan commitments	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Low risk	857.4	–	–	857.4	986.6	–	–	986.6
Medium risk	213.1	0.5	6.4	220.0	302.5	–	–	302.5
High risk	137.6	56.6	9.2	203.4	280.9	57.0	1.7	339.6
Total amount committed	1,208.1	57.1	15.6	1,280.8	1,570.0	57.0	1.7	1,628.7

1 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £22.3 million, of which £22.3 million is high risk and £nil million ungraded (2022: £19.8 million; £16.7 million high risk and £3.1 million ungraded). The associated loss allowance is £4.8 million (2022: £3.6 million).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk *(audited)*

A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group monitors concentrations of credit risk and implements limits on concentrations where necessary in order to mitigate and control credit concentration risk.

Additional analysis regarding concentrations of credit risk in relation to loans and advances to customers, the principal source of credit risk for the Group, is provided below. Amounts included in these tables present the combined carrying amount of the Group's loans and advances to customers at amortised cost and at FVOCI.

Concentrations of credit risk by geographic location

The following tables analyse the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and geographic location. The Group is predominantly a UK lender and continues to maintain a geographically diverse portfolio spanning across the UK. Outside of the UK, a small proportion of loans are attributable to counterparties domiciled in the Channel Islands, representing 0.2% of total loans (2022: 0.3% of total loans).

	Enterprise				
As at 31 December 2023	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
East Anglia	185.8	120.8	22.9	149.6	479.1
East Midlands	313.4	148.2	39.9	251.7	753.2
Greater London	2,287.5	740.5	66.7	912.1	4,006.8
Guernsey/Jersey/Isle of Man	12.3	15.3	–	–	27.6
North East	115.7	27.6	31.2	113.5	288.0
North West	573.7	302.6	70.0	410.5	1,356.8
Northern Ireland	7.0	0.8	0.1	2.6	10.5
Scotland	294.6	48.9	72.0	268.0	683.5
South East	1,172.8	416.8	115.6	846.9	2,552.1
South West	378.4	341.6	49.0	224.7	993.7
Wales	132.2	66.0	31.1	121.9	351.2
West Midlands	378.1	243.0	55.1	283.0	959.2
Yorkshire/Humberside	314.4	226.0	53.3	257.0	850.7
Carrying amount[2]	**6,165.9**	**2,698.1**	**606.9**	**3,841.5**	**13,312.4**

	Enterprise				
As at 31 December 2022 (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
East Anglia	149.5	110.5	19.2	100.1	379.3
East Midlands	238.2	112.3	34.0	159.6	544.1
Greater London	1,914.8	670.6	54.6	517.9	3,157.9
Guernsey/Jersey/Isle of Man	16.1	13.1	–	–	29.2
North East	71.2	37.9	26.9	82.5	218.5
North West	461.6	281.2	58.0	271.2	1,072.0
Northern Ireland	6.0	1.0	0.2	–	7.2
Scotland	283.4	78.0	59.6	180.7	601.7
South East	979.6	349.2	97.2	562.9	1,988.9
South West	325.4	335.6	41.7	164.1	866.8
Wales	123.1	71.7	24.7	86.2	305.7
West Midlands	289.4	225.6	44.9	181.2	741.1
Yorkshire/Humberside	269.4	266.6	44.2	176.7	756.9
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.
2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk by loan size

The following tables present an analysis of the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and loan size. The Group continues to manage concentration risk through product caps, restricting large exposures to higher credit graded customers, and through specific risk appetite limits on exposure to larger counterparties. Loans with a carrying amount exceeding £25.0 million represents 1.9% of total loans (2022: 1.9% of total loans), whilst 63.9% of total loans have a carrying amount of less than £1.0 million (2022: 63.8% of total loans).

As at 31 December 2023	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
0 – £50k	118.0	35.9	606.0	43.1	803.0
£50k – £100k	333.2	45.0	0.9	416.0	795.1
£100k – £250k	1,044.0	93.0	–	1,856.3	2,993.3
£250k – £500k	1,262.0	110.5	–	1,181.5	2,554.0
£500k – £1.0 million	904.9	157.3	–	293.3	1,355.5
£1.0 million – £2.5 million	1,175.1	345.4	–	48.5	1,569.0
£2.5 million – £5.0 million	582.5	465.2	–	2.8	1,050.5
£5.0 million – £10.0 million	373.7	533.4	–	–	907.1
£10.0 million – £25.0 million	317.0	711.4	–	–	1,028.4
> £25.0 million	55.5	201.0	–	–	256.5
Carrying amount[2]	6,165.9	2,698.1	606.9	3,841.5	13,312.4

As at 31 December 2022 (Restated)[1]	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
0 – £50k	140.2	31.3	504.9	32.4	708.8
£50k – £100k	354.8	38.4	0.3	288.1	681.6
£100k – £250k	1,022.7	91.4	–	1,207.3	2,321.4
£250k – £500k	1,134.1	106.7	–	738.0	1,978.8
£500k – £1.0 million	790.4	144.8	–	182.4	1,117.6
£1.0 million – £2.5 million	825.9	392.7	–	32.1	1,250.7
£2.5 million – £5.0 million	357.6	446.5	–	2.8	806.9
£5.0 million – £10.0 million	257.5	431.9	–	–	689.4
£10.0 million – £25.0 million	188.8	717.8	–	–	906.6
> £25.0 million	55.7	151.8	–	–	207.5
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.
2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk by industry

The following tables present an analysis of the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and industry. The industry segmentation of the Group's loans and advances to customers remains focused on mortgages and real estate activities, which represents 72.5% of total loans (2022: 68.7% of total loans).

	Enterprise				
As at 31 December 2023	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
Agriculture, forestry and fishing	0.4	13.6	–	–	14.0
Manufacturing	4.2	173.5	–	–	177.7
Transport, storage and utilities	8.3	329.0	–	0.2	337.5
Construction	490.1	537.9	–	–	1,028.0
Wholesale and retail trade	13.0	221.5	–	–	234.5
Real estate activities	3,960.6	556.3	–	962.9	5,479.8
Financial and insurance activities	25.8	616.3	–	–	642.1
Services and other	106.3	245.9	–	1.3	353.5
Personal:					
Mortgages	1,284.7	4.0	–	2,877.1	4,165.8
Other	272.5	0.1	606.9	–	879.5
Carrying amount[2]	6,165.9	2,698.1	606.9	3,841.5	13,312.4

	Enterprise				
As at 31 December 2022 (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Agriculture, forestry and fishing	0.2	16.5	–	–	16.7
Manufacturing	2.6	203.4	–	–	206.0
Transport, storage and utilities	7.0	266.9	–	0.2	274.1
Construction	386.0	460.1	–	–	846.1
Wholesale and retail trade	13.1	192.0	–	–	205.1
Real estate activities	3,026.0	553.0	–	523.7	4,102.7
Financial and insurance activities	20.3	600.3	–	–	620.6
Services and other	104.8	253.0	–	0.9	358.7
Personal:					
Mortgages	1,261.3	8.0	–	1,958.3	3,227.6
Other	306.4	0.1	505.2	–	811.7
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Collateral held and other credit enhancements *(audited)*

As a key method of mitigating credit risk, the Group holds collateral and other credit enhancements against certain of its financial assets. The Group operates internal policies governing the acceptability of specific classes of collateral or credit risk mitigation. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Group's policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

Derivative financial assets

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

Non-derivative financial assets

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

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

- **Loan receivables:** amounts may be secured by a first or second charge over commercial and residential property, or against debt receivables or other assets such as asset backed loans and invoice receivables. Certain loans may also be non-asset backed, for example loans secured by virtue of a guarantor, government guarantee (e.g. loans offered under the Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme) or business covenant.
- **Finance lease receivables and instalment credit receivables:** amounts are secured against the underlying asset, which can be repossessed in the event of a default.

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

The following tables set out the security profile of the Group's loans and advances to customers by lending segment[1]. Amounts included in the tables present the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI.

Other secured loans include loans secured by other assets and non-asset backed loans.

	Enterprise				
As at 31 December 2023	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
Secured on commercial and residential property	6,165.9	614.9	–	3,841.5	10,622.3
Secured on debt receivables	–	973.4	–	–	973.4
Secured on finance lease assets	–	26.0	–	–	26.0
Secured on instalment credit assets	–	421.2	–	–	421.2
Other secured loans	–	662.6	–	–	662.6
Total secured loans and advances to customers	6,165.9	2,698.1	–	3,841.5	12,705.5
Unsecured loan receivables	–	–	606.9	–	606.9
Carrying amount[2]	6,165.9	2,698.1	606.9	3,841.5	13,312.4

	Enterprise				
As at 31 December 2022 (Restated)[1,3]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Secured on commercial and residential property	5,127.7	597.9	–	2,483.1	8,208.7
Secured on debt receivables	–	966.7	–	–	966.7
Secured on finance lease assets	–	37.7	–	–	37.7
Secured on instalment credit assets	–	371.1	–	–	371.1
Other secured loans	–	579.9	–	–	579.9
Total secured loans and advances to customers	5,127.7	2,553.3	–	2,483.1	10,164.1
Unsecured loan receivables	–	–	505.2	–	505.2
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.
2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.
3 Certain amounts in SME have been reclassified to better reflect the nature of their security. This includes £263.4 million that was previously included in the 'secured on commercial and residential property' and £15.4 million that was included in 'unsecured loan receivables'. These amounts are secured via other assets, guarantors or business guarantees so are now reflected in the renamed 'other secured loans' category.

Principal risks: Credit risk

Credit-impaired financial assets

The Group closely monitors collateral held for financial assets considered to be credit-impaired (Stage 3 and POCI), reflecting the increased likelihood that the Group may need to take possession of such collateral to mitigate credit losses.

The only asset categories with credit-impaired assets are loans and advances to customers (including those measured at amortised cost and at FVOCI).

The below tables provide further information about the credit-impaired loans at amortised cost and the related collateral held by lending segment. The fair value of collateral is capped at the carrying amount of the loan.

	Gross carrying amount		**Loss allowance**		**Carrying amount**		**Fair value of collateral held**
As at 31 December 2023	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**£m**
Real Estate	173.2	–	(24.3)	–	148.9	–	148.9
SME	82.6	–	(20.3)	–	62.3	–	62.3
Consumer Lending	–	6.9	–	(5.6)	–	1.3	n/a
Retail Mortgage Brands	89.4	–	(3.7)	–	85.7	–	85.7
Total credit-impaired loans at amortised cost	345.2	6.9	(48.3)	(5.6)	296.9	1.3	296.9

	Gross carrying amount		Loss allowance		Carrying amount		Fair value of collateral held
As at 31 December 2022 (Restated)[1]	Secured £m	Unsecured £m	Secured £m	Unsecured £m	Secured £m	Unsecured £m	£m
Real Estate	149.0	–	(16.4)	–	132.6	–	132.6
SME	84.0	–	(23.5)	–	60.5	–	60.5
Consumer Lending	–	4.4	–	(3.5)	–	0.9	n/a
Retail Mortgage Brands	50.5	–	(2.6)	–	47.9	–	47.9
Total credit-impaired loans at amortised cost	283.5	4.4	(42.5)	(3.5)	241.0	0.9	241.0

Credit-impaired loans at FVOCI have a carrying amount of £26.3 million (2022: £2.2 million). These loans are fully secured with the fair value of collateral deemed to be at least equal to the carrying amount.

The following tables show the distribution of loan-to-value ratios for the Group's credit-impaired mortgage assets held in the Real Estate and Retail Mortgage Brands lending segments. The loan-to-value is calculated as the ratio of the customer loan balance to the value of the collateral at origination. Amounts in the following tables reflect the carrying amount of the credit-impaired mortgage assets.

	Credit-impaired mortgage assets at amortised cost		**Credit-impaired mortgage assets at FVOCI**
As at 31 December 2023	**Real Estate £m**	**Retail Mortgage Brands £m**	**Retail Mortgage Brands £m**
Loan-to-value ratio			
Less than 50%	7.3	4.3	1.2
50-70%	60.3	26.7	10.0
71-90%	81.0	54.7	14.0
91-100%	0.3	–	–
More than 100%	–	–	–
Total credit-impaired mortgage assets	148.9	85.7	25.2

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Principal risks: Credit risk

As at 31 December 2022 (Restated)[1]	Credit-impaired mortgage assets at amortised cost		Credit-impaired mortgage assets at FVOCI
	Real Estate £m	Retail Mortgage Brands £m	Retail Mortgage Brands £m
Loan-to-value ratio			
Less than 50%	10.4	1.8	0.1
50-70%	50.6	16.3	0.4
71-90%	71.4	29.8	1.7
91-100%	0.2	–	–
More than 100%	–	–	–
Total credit-impaired mortgage assets	132.6	47.9	2.2

Repossessions

The Group's policy is to pursue the realisation of collateral in an orderly manner. As at 31 December 2023, the Group held 29 repossessed properties with a carrying amount of £36.5 million (2022: 17 repossessed properties with carrying amount of £22.8 million).

Forbearance *(audited)*

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:

- modification of 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 difficulty; or
- total or partial refinancing of an agreement that would not have been granted had the borrower not been in financial difficulty.

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

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

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

Under these standards, loans are classified as performing or non-performing in accordance with the EBA rules, as adopted by the Prudential Regulation Authority (PRA).

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

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

The following tables provide a summary of the Group's forborne loans and advances to customers by lending segment and year-end stage classification. This includes both loans measured at amortised cost and those measured at FVOCI. For FVOCI loans, the gross carrying amount column represents the carrying amount of these loans (i.e. including fair value adjustments).

1 Information is based on the revised lending segments as detailed on page 87. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Principal risks: Credit risk

As at 31 December 2023	Number	Gross amount of forborne loans: Performing £m	Gross amount of forborne loans: Non-performing £m	Gross amount of forborne loans: Total £m	Loss allowance on forborne loans: Performing £m	Loss allowance on forborne loans: Non-performing £m	Loss allowance on forborne loans: Total £m	Coverage %
Real Estate								
Stage 2	105	6.5	5.3	11.8	(0.1)	(0.2)	(0.3)	2.5
Stage 3	505	–	42.5	42.5	–	(5.5)	(5.5)	12.9
Real Estate total	610	6.5	47.8	54.3	(0.1)	(5.7)	(5.8)	10.7
SME								
Stage 2	151	109.8	–	109.8	(6.0)	–	(6.0)	5.5
Stage 3	223	–	26.4	26.4	–	(6.7)	(6.7)	25.4
SME total	374	109.8	26.4	136.2	(6.0)	(6.7)	(12.7)	9.3
Consumer Lending								
Stage 2	167	0.4	0.6	1.0	–	(0.3)	(0.3)	30.0
Stage 3	675	–	3.0	3.0	–	(2.4)	(2.4)	80.0
Consumer Lending total	842	0.4	3.6	4.0	–	(2.7)	(2.7)	67.5
Retail Mortgage Brands								
Stage 2	10	1.4	0.4	1.8	–	–	–	0.0
Stage 3	327	–	58.8	58.8	–	(2.3)	(2.3)	3.9
Retail Mortgage Brands total	337	1.4	59.2	60.6	–	(2.3)	(2.3)	3.8
Total								
Stage 2	433	118.1	6.3	124.4	(6.1)	(0.5)	(6.6)	5.3
Stage 3	1,730	–	130.7	130.7	–	(16.9)	(16.9)	12.9
Total	2,163	118.1	137.0	255.1	(6.1)	(17.4)	(23.5)	9.2

As at 31 December 2023	Number	Gross amount of forborne loans: Performing £m	Gross amount of forborne loans: Non-performing £m	Gross amount of forborne loans: Total £m	Loss allowance on forborne loans: Performing £m	Loss allowance on forborne loans: Non-performing £m	Loss allowance on forborne loans: Total £m	Coverage %
Real Estate								
Stage 2	148	8.8	3.8	12.6	–	(0.1)	(0.1)	0.8
Stage 3	497	–	46.2	46.2	–	(3.8)	(3.8)	8.2
Total	645	8.8	50.0	58.8	–	(3.9)	(3.9)	6.6
SME								
Stage 2	122	68.4	–	68.4	(4.0)	–	(4.0)	5.8
Stage 3	450	–	43.6	43.6	–	(10.3)	(10.3)	23.6
Total	572	68.4	43.6	112.0	(4.0)	(10.3)	(14.3)	12.8
Consumer Lending								
Stage 2	184	0.5	0.5	1.0	–	(0.2)	(0.2)	20.0
Stage 3	728	–	3.0	3.0	–	(2.4)	(2.4)	80.0
Total	912	0.5	3.5	4.0	–	(2.6)	(2.6)	65.0
Total								
Stage 2	454	77.7	4.3	82.0	(4.0)	(0.3)	(4.3)	5.2
Stage 3	1,675	–	92.8	92.8	–	(16.5)	(16.5)	17.8
Total	2,129	77.7	97.1	174.8	(4.0)	(16.8)	(20.8)	11.9

Principal risks: Market, liquidity and capital risk

In the following sections, information under headings marked as 'audited' is covered by the Independent Auditor's Report. All other information is unaudited.

The 'market, liquidity and capital' principal risk comprises three components, each with specific disclosure requirements attached to them. As such, each of the components are presented in turn.

Market risk

This section specifically provides information about:

- Managing market risk
- Exposure to market risk
- Metrics used in assessing and monitoring market risk

Managing market risk

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

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

Exposure to market risk *(audited)*

The forms of market risk that the Group is exposed to can be further divided into foreign exchange risk, basis risk and interest rate risk. Additional details regarding each of these is provided in the following section.

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 that is managed by appropriate financial instruments including derivatives.

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

As at 31 December 2023	**Euros £m**	**US Dollars £m**	**Australian Dollars £m**
Loans and advances to banks	5.0	5.2	0.4
Loans and advances to customers	1.5	19.8	–
Total exposure	6.5	25.0	0.4

As at 31 December 2022	Euros £m	US Dollars £m	Australian Dollars £m
Loans and advances to banks	4.7	4.6	0.4
Loans and advances to customers	3.2	9.6	–
Total exposure	7.9	14.2	0.4

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

Basis risk

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

The Group materially completed its transition from London Inter-bank Offered Rate (LIBOR) to alternative rates during the previous reporting year. As at 31 December 2022, just 48 customer loans with a gross carrying amount of £4.8 million remained, all of which had been moved to synthetic LIBOR. As at 31 December 2023, this has further reduced to 37 customer loans with a gross carrying amount of £3.0 million remaining attached to synthetic LIBOR.

Interest rate risk

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

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

During 2023, the Group completed the hedging of its free reserves and the implementation of the savings pipeline into the risk framework.

Principal risks: Market, liquidity and capital risk

Metrics used in assessing and monitoring market risk

The following tables provide a summary of the Group's interest rate gap position. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date. A behavioural assumption is applied to loans and advances to customers where this is considered material. Equity of the Group is matched against originated long-term fixed loans and the equity is spread across the time bands to match the profile of these assets.

As at 31 December 2023	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	2,148.2	–	–	–	–	39.9	2,188.1
Loans and advances to banks	480.7	–	–	–	–	–	480.7
Loans and advances to customers	3,959.0	298.5	922.4	7,855.5	514.9	(271.0)	13,279.3
Investment securities	817.4	–	–	–	–	4.7	822.1
Derivative financial assets	–	–	–	–	–	252.7	252.7
Non-financial assets	2.0	1.5	3.2	12.7	0.5	193.4	213.3
Total assets	7,407.3	300.0	925.6	7,868.2	515.4	219.7	17,236.2
Equity and liabilities							
Amounts due to banks	(1,389.0)	–	–	–	–	(16.0)	(1,405.0)
Customer deposits	(6,901.9)	(2,100.8)	(2,675.9)	(1,665.3)	(45.8)	(173.0)	(13,562.7)
Derivative financial liabilities	–	–	–	–	–	(184.5)	(184.5)
Debt securities in issue	(452.6)	–	–	–	–	(10.2)	(462.8)
Lease liabilities	–	–	–	–	–	(6.1)	(6.1)
Subordinated debt liability	–	–	(20.0)	(76.5)	(90.0)	(2.0)	(188.5)
Non-financial liabilities	–	–	–	–	–	(87.9)	(87.9)
Equity	(51.6)	(15.0)	(64.0)	(1,039.0)	(65.0)	(104.1)	(1,338.7)
Total equity and liabilities	(8,795.1)	(2,115.8)	(2,759.9)	(2,780.8)	(200.8)	(583.8)	(17,236.2)
Notional values of derivatives	1,879.0	1,312.3	1,857.6	(4,726.3)	(322.5)	–	–
Interest rate sensitivity gap	491.2	(503.5)	23.3	361.1	(7.9)	(364.2)	–
Cumulative gap	491.2	(12.3)	11.0	372.1	364.2	–	–

Principal risks: Market, liquidity and capital risk

As at 31 December 2022	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	2,007.5	–	–	–	–	29.6	2,037.1
Loans and advances to banks	263.6	–	–	–	–	–	263.6
Loans and advances to customers	3,405.4	259.3	1,049.7	5,417.6	654.1	(329.0)	10,457.1
Investment securities	688.2	–	–	–	–	2.8	691.0
Derivative financial assets	–	–	–	–	–	330.7	330.7
Non-financial assets	2.5	2.1	4.1	15.7	1.9	132.9	159.2
Total assets	6,367.2	261.4	1,053.8	5,433.3	656.0	167.0	13,938.7
Equity and liabilities							
Amounts due to banks	(1,490.0)	–	–	–	–	(8.7)	(1,498.7)
Customer deposits	(4,365.8)	(1,752.3)	(2,880.2)	(1,815.1)	(60.8)	(40.3)	(10,914.5)
Derivative financial liabilities	–	–	–	–	–	(90.5)	(90.5)
Debt securities in issue	(116.6)	–	–	–	–	0.2	(116.4)
Lease liabilities	–	–	–	–	–	(7.4)	(7.4)
Subordinated debt liability	–	–	–	(95.0)	–	(1.8)	(96.8)
Non-financial liabilities	–	–	–	–	–	(74.6)	(74.6)
Equity	(2.0)	(10.0)	(24.0)	(642.0)	(155.0)	(306.8)	(1,139.8)
Total equity and liabilities	(5,974.4)	(1,762.3)	(2,904.2)	(2,552.1)	(215.8)	(529.9)	(13,938.7)
Notional values of derivatives	294.5	990.4	1,886.8	(2,790.1)	(381.6)	–	–
Interest rate sensitivity gap	687.3	(510.5)	36.4	91.1	58.6	(362.9)	–
Cumulative gap	687.3	176.8	213.2	304.3	362.9	–	–

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

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

- **+ 250 bps:** £7.6 million negative (2022: £9.2 million negative)
- **– 250 bps:** £8.5 million negative (2022: £22.2 million negative)

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

- **+ 250 bps:** £46.1 million positive (2022: £36.6 million positive)
- **– 250 bps:** £7.6 million negative (2022: £9.6 million negative)

In preparing the above, the Group makes certain assumptions consistent with expected and contractual repricing behaviour as well as behavioural repayment profiles of the underlying statement of financial position items in relation to the specific scenarios. In addition, equity is allocated to the specific reprice buckets consistent with the Group's reserves investment strategy. The results also include the impact of hedge transactions.

Principal risks: Market, liquidity and capital risk

Liquidity risk

This section specifically provides information about:

- Managing liquidity risk
- Maturity analysis for financial assets and liabilities
- Metrics used in assessing and monitoring liquidity risk

Managing liquidity risk

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

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

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

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

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

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

In compiling these tables the following points should be noted:

- The 'less than 1 month' maturity group includes amounts repayable on demand;
- For loans and advances to customers and customer deposits, the 'more than 5 years' maturity group also includes the fair value adjustment for hedged risk;
- Accrued interest is assigned to the maturity group based on when it is scheduled to be paid.

As at 31 December 2023	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	2,148.2	–	–	–	–	39.9	2,188.1
Loans and advances to banks	480.7	–	–	–	–	–	480.7
Loans and advances to customers	340.9	458.5	1,115.8	704.1	1,959.3	8,700.7	13,279.3
Investment securities	51.3	81.2	81.1	61.7	395.1	151.7	822.1
Derivative financial assets	0.8	0.5	28.4	33.0	170.0	20.0	252.7
Total financial assets	3,021.9	540.2	1,225.3	798.8	2,524.4	8,912.3	17,022.9
Financial liabilities							
Amounts due to banks	(205.0)	–	–	(1,200.0)	–	–	(1,405.0)
Customer deposits	(6,128.3)	(934.1)	(4,823.7)	(1,061.7)	(569.4)	(45.5)	(13,562.7)
Derivative financial liabilities	(7.5)	(5.5)	(24.8)	(21.6)	(110.7)	(14.4)	(184.5)
Debt securities in issue	(5.6)	(7.6)	(21.1)	(14.9)	(42.3)	(371.3)	(462.8)
Lease liabilities	(0.2)	(0.4)	(1.8)	(1.5)	(2.0)	(0.2)	(6.1)
Subordinated debt liability	–	(0.3)	(4.2)	–	–	(184.0)	(188.5)
Total financial liabilities	(6,346.6)	(947.9)	(4,875.6)	(2,299.7)	(724.4)	(615.4)	(15,809.6)
Cumulative gap	(3,324.7)	(3,732.4)	(7,382.7)	(8,883.6)	(7,083.6)	1,213.3	1,213.3

Principal risks: Market, liquidity and capital risk

As at 31 December 2022	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	2,007.5	–	–	–	–	29.6	2,037.1
Loans and advances to banks	263.6	–	–	–	–	–	263.6
Loans and advances to customers	265.3	302.8	1,164.6	827.6	1,725.1	6,171.7	10,457.1
Investment securities	30.0	59.9	127.6	104.8	217.8	150.9	691.0
Derivative financial assets	0.1	0.8	17.7	3.6	272.3	36.2	330.7
Total financial assets	2,566.5	363.5	1,309.9	936.0	2,215.2	6,388.4	13,779.5
Financial liabilities							
Amounts due to banks	(298.7)	–	–	–	(1,200.0)	–	(1,498.7)
Customer deposits	(3,747.3)	(715.0)	(4,563.7)	(1,310.6)	(517.9)	(60.0)	(10,914.5)
Derivative financial liabilities	(3.0)	(0.8)	(21.3)	(5.6)	(54.9)	(4.9)	(90.5)
Debt securities in issue	(6.1)	(5.6)	(12.7)	(13.3)	(36.6)	(42.1)	(116.4)
Lease liabilities	(0.2)	(0.3)	(1.4)	(1.8)	(3.0)	(0.7)	(7.4)
Subordinated debt liability	–	(0.3)	(1.5)	–	–	(95.0)	(96.8)
Total financial liabilities	(4,055.3)	(722.0)	(4,600.6)	(1,331.3)	(1,812.4)	(202.7)	(12,724.3)
Cumulative gap	(1,488.8)	(1,847.3)	(5,138.0)	(5,533.3)	(5,130.5)	1,055.2	1,055.2

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

As at 31 December 2023	**Less than 1 month £m**	**1-3 months £m**	**3 months – 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Amounts due to banks	205.0	15.8	47.3	1,252.5	–	–	1,520.6
Customer deposits	6,148.9	940.7	4,980.8	1,104.1	636.1	54.6	13,865.2
Derivative financial liabilities	7.5	5.5	24.8	21.6	110.7	14.4	184.5
Debt securities in issue	7.2	10.2	35.2	33.4	95.1	631.9	813.0
Lease liabilities	0.2	0.4	1.9	1.5	2.1	0.2	6.3
Subordinated debt liability	2.8	0.7	13.0	19.1	57.2	258.8	351.6
Total financial liabilities	6,371.6	973.3	5,103.0	2,432.2	901.2	959.9	16,741.2

As at 31 December 2022	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Amounts due to banks	298.7	12.0	36.0	48.0	1,240.0	–	1,634.7
Customer deposits	3,759.7	719.1	4,662.1	1,345.9	567.3	67.9	11,122.0
Derivative financial liabilities	3.0	0.8	21.3	5.6	54.9	4.9	90.5
Debt securities in issue	6.6	6.4	16.5	17.7	45.8	48.1	141.1
Lease liabilities	0.2	0.3	1.5	1.9	3.1	0.7	7.7
Subordinated debt liability	–	0.7	7.5	8.1	24.1	116.1	156.5
Total financial liabilities	4,068.2	739.3	4,744.9	1,427.2	1,935.2	237.7	13,152.5

Principal risks: Market, liquidity and capital risk

Metrics used in assessing and monitoring liquidity risk

Certain metrics that are used by the Group in assessing and monitoring liquidity risk are summarised below.

Liquidity buffer

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

The average liquidity buffer, calculated as the simple average of the month end observations for the preceding 12 months, is £2,738.6 million (2022: £2,162.5 million).

The composition of the Group's liquidity buffer as at 31 December is as follows:

	2023 £m	2022 £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	2,451.9	2,004.3
Central government assets (LCR level 1 assets)	–	–
Extremely high quality covered bonds (LCR level 1 assets)	480.7	453.6
High quality covered bonds (LCR level 2A assets)	–	9.0
Asset backed securities (LCR level 2B assets)	57.8	13.5
Total liquidity buffer	2,990.4	2,480.4

Liquidity coverage ratio

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

	2023	2022
Liquidity buffer (£m)	2,990.4	2,480.4
Total net cash outflows (£m)	1,138.0	772.1
Liquidity coverage ratio (%)	262.8	321.3

Net stable funding ratio

The net stable funding ratio (NSFR) is a regulatory metric that measures the amount of stable funding available compared to the amount of stable funding required. From 1 January 2022, as part of the revised Capital Requirements Regulation (CRR II), it became a binding requirement that the NSFR must remain above the minimum level of 100%. The Group's NSFR remains above this required level, with a ratio of 145.5% as at 31 December 2023 (2022: 145.6%).

Asset encumbrance *(audited)*

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

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

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

Principal risks: Market, liquidity and capital risk

As at 31 December 2023	Encumbered assets Pledged as collateral £m	Encumbered assets Other £m	Unencumbered assets Available as collateral £m	Unencumbered assets Other £m	Total £m
Cash and balances at central banks	–	39.9	–	2,148.2	2,188.1
Loans and advances to banks	303.4	139.3	38.0	–	480.7
Loans and advances to customers	4,292.5	–	8,986.8	–	13,279.3
Investment securities	79.3	25.0	713.5	4.3	822.1
Derivative financial assets	–	–	–	252.7	252.7
Non-financial assets	–	–	31.5	181.8	213.3
Total assets	4,675.2	204.2	9,769.8	2,587.0	17,236.2

As at 31 December 2022	Encumbered assets Pledged as collateral £m	Encumbered assets Other £m	Unencumbered assets Available as collateral £m	Unencumbered assets Other £m	Total £m
Cash and balances at central banks	–	29.6	–	2,007.5	2,037.1
Loans and advances to banks	155.5	59.5	48.6	–	263.6
Loans and advances to customers	2,964.6	–	7,492.5	–	10,457.1
Investment securities	79.3	–	610.0	1.7	691.0
Derivative financial assets	–	–	–	330.7	330.7
Non-financial assets	–	–	38.1	121.1	159.2
Total assets	3,199.4	89.1	8,189.2	2,461.0	13,938.7

Encumbered assets 'pledged as collateral' comprise:

Loans and advances to banks totalling £303.4 million (2022: £155.5 million), of which:

- £286.6 million (2022: £155.5 million) is pledged as collateral against derivative contracts.
- £16.8 million (2022: £nil million) is pledged as collateral against repurchase agreements.

Loans and advances to customers totalling £4,292.5 million (2022: £2,964.6 million), of which:

- £2,057.1 million (2022: £1,602.3 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £2,235.4 million (2022: £1,362.3 million) is pledged to securitisation programmes.

Investment securities totalling £79.3 million (2022: £79.3 million), of which:

- £79.3 million (2022: £79.3 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.

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

- £39.9 million (2022: £29.6 million) of mandatory deposits with central banks.
- £139.3 million (2022: £59.5 million) of securitisation cash, which represents cash balances of consolidated structured entities.
- £25.0 million (2022: £nil million) of investment securities, which represents restricted amounts invested in short-term money market funds by consolidated structured entities.

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

Principal risks: Market, liquidity and capital risk

Capital risk

This section specifically provides information about:

- Managing capital risk
- Regulatory requirements
- Regulatory developments
- Metrics used in assessing and monitoring capital risk

Managing capital risk *(audited)*

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

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

The principal objectives when managing capital are to:

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

The Group recognises the importance of allocating the correct risk-weighting to its assets. Documentation and testing of risk-weighted assets is overseen by the Regulatory Reporting Committee.

The PRA supervises the Company on a consolidated basis, with capital requirements set for the Group as a whole and information on capital adequacy provided to the PRA at a consolidated Group level only. Shawbrook Bank Limited and its subsidiaries, The Mortgage Lender Limited and Bluestone Mortgages Limited, are the only regulated subsidiaries within the Group. Shawbrook Bank Limited is supervised by the PRA and the FCA, whilst The Mortgage Lender Limited and Bluestone Mortgages Limited are regulated by the FCA.

The PRA has also identified the Company to be a 'Financial Holding Company'.

Regulatory requirements

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

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

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

Minimum requirements set out by the regulatory framework are summarised in the following table. The countercyclical capital buffer increased from 1% to 2% with effect from 5 July 2023. There were no other changes to minimum capital requirements between reporting periods.

	2023		2022	
Minimum capital requirements	**CET1**	**Total capital**	CET1	Total capital
Pillar 1	4.50%	8.00%	4.50%	8.00%
Pillar 2A	0.60%	1.07%	0.60%	1.07%
Total Capital Requirement	5.10%	9.07%	5.10%	9.07%
Regulatory capital buffers				
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Countercyclical capital buffer	2.00%	2.00%	1.00%	1.00%
Overall Capital Requirement	9.60%	13.57%	8.60%	12.57%

Additional systemic buffers provided for by CRD V do not apply to the Group.

The regulatory minimum for the UK leverage ratio also remains unchanged compared to 31 December 2022 at 3.25%. Whilst the Group is not required to comply with the PRA's UK Leverage Ratio Framework until its retail deposits exceed the £50 billion threshold, the PRA has stated its expectation that all UK firms should manage their leverage risk so that the ratio does not ordinarily fall below 3.25%. Consequently, the Group treats 3.25% as its minimum requirement.

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

Principal risks: Market, liquidity and capital risk

Regulatory developments

During the year ended 31 December 2023, the following regulatory changes came into effect:

- The UK countercyclical capital buffer increased from 1% to 2%, effective from 5 July 2023.

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

- In September 2023, the PRA announced that it was moving the implementation date for Basel 3.1 to 1 July 2025 and was reducing the transition period to 4.5 years to ensure full implementation by 1 January 2030, in line with the proposals set out in Consultation Paper CP16/22. To allow more time to consider the responses to the credit risk and output floor proposals, the PRA announced that it would publish the near final rules on market risk, credit valuation adjustment risk, counterparty credit risk and operational risk in Q4 2023. Near final policies on credit risk, the output floor and reporting and disclosure requirements would be published in Q2 2024. The Group has conducted an initial impact assessment to ascertain potential impacts of these changes, but these cannot be finalised until the final rules are published.
- The PRA published PS15/23 on "The Strong and Simple Framework" in December 2023. The policy statement defined a new name, Small Domestic Deposit Taker (SDDT), for firms which in previous regulatory publications were referred to as strong and simple. The policy statement also set out the Interim Capital Requirements (ICR) regime. Banks that do not wish to access the SDDT framework or the ICR would transition into Basel 3.1 from 1st July 2025. Banks who wish to transition to SDDT and/or ICR will need to make a modification request to the PRA. The policy statement also confirmed Remuneration disclosure requirements.

Metrics used in assessing and monitoring capital risk

Certain disclosures relating to the Group's capital position are shown on the following pages. The disclosures present the consolidated capital position for the Group, as reported to the PRA. Disclosures for the Group's regulated subsidiaries (Shawbrook Bank Limited and its subsidiaries, The Mortgage Lender Limited and Bluestone Mortgages Limited) are not separately disclosed and can be found in Shawbrook Bank Limited's own Annual Report and Accounts, which is available on the Group's website at: **shawbrook.co.uk**

Disclosures are presented on a CRD V basis after applying IFRS 9 transitional arrangements[1]. A comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 143.

Regulatory capital *(audited)*

Composition of the Group's regulatory capital as at 31 December is as follows:

	2023 £m	2022 £m
Share capital	2.5	2.5
Share premium	87.3	87.3
Capital contribution reserve	19.9	5.6
Retained earnings	1,101.7	905.8
Intangible assets	(107.2)	(76.4)
Transitional adjustment for IFRS 9	17.5	24.5
Prudent valuation adjustment	(3.0)	(1.3)
Common Equity Tier 1 capital	**1,118.7**	948.0
Capital securities	123.1	122.9
Additional Tier 1 capital	**123.1**	122.9
Total Tier 1 capital	**1,241.8**	1,070.9
Subordinated debt liability[2]	183.1	94.1
Tier 2 capital	**183.1**	94.1
Total regulatory capital	**1,424.9**	1,165.0

1 The Group applies the transitional approach when recognising the impact of adopting IFRS 9 'Financial Instruments'. This allows the Group to phase in the full impact of IFRS 9 adoption by adding back a proportion of the impact during the first five years of implementation in accordance with specific rules and transitional factors as published in Regulation (EU) 2017/2395.From 1 January 2023, the initial five-year phasing in period is complete and the Group may no longer add back a proportion of the impact of adopting IFRS 9 (2022: 25% add back permitted). However, in response to the COVID-19 pandemic, for non-credit impaired ECLs raised from 1 January 2020 the transitional arrangements were revised, as set out in the CRR 'Quick Fix'. For such loans, the revised add-back percentage for 2023 is 50% (2022: 75%).

2 For the purpose of regulatory capital calculations, capitalised interest and other accounting adjustments of £5.4 million are excluded (2022: £2.7 million).

Principal risks: Market, liquidity and capital risk

The Group's total regulatory capital reconciles to the Group's total equity per the statement of financial position as follows:

	2023 £m	2022 £m
Total regulatory capital	1,424.9	1,165.0
Subordinated debt liability[1]	(183.1)	(94.1)
Intangible assets	107.2	76.4
Transitional adjustment for IFRS 9	(17.5)	(24.5)
Prudent valuation adjustment	3.0	1.3
Cash flow hedging reserve	4.5	26.4
Fair value through other comprehensive income reserve	(0.3)	(10.7)
Total equity	1,338.7	1,139.8

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

	2023 £m	2022 £m
Total regulatory capital as at 1 January	1,165.0	996.4
Movement in Common Equity Tier 1 capital		
Increase in capital contribution reserve	14.3	–
Increase in retained earnings:		
Profit for the year	212.1	174.7
Share-based payments	0.7	0.1
Release of capitalised costs on settled capital securities	–	(1.0)
Coupon paid on capital securities	(16.9)	(8.8)
Increase in intangible assets	(30.8)	(1.2)
Increase/(decrease) in transitional adjustment for IFRS 9	(7.0)	7.2
Increase in prudent valuation adjustment	(1.7)	(1.3)
Total movement in Common Equity Tier 1 capital	170.7	169.7
Movement in Additional Tier 1 capital		
Increase/(decrease) in capital securities	0.2	(1.1)
Total movement in Additional Tier 1 capital	0.2	(1.1)
Movement in Tier 2 capital		
Issue of subordinated debt	90.0	–
Other movements in subordinated debt	(1.0)	–
Total movement in Tier 2 capital	89.0	–
Total regulatory capital as at 31 December	1,424.9	1,165.0

1 For the purpose of regulatory capital calculations, capitalised interest and other accounting adjustments of £5.4 million are excluded (2022: £2.7 million).

Principal risks: Market, liquidity and capital risk

Risk-weighted assets

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

	2023 £m	2022 (Restated)[1] £m
Credit risk[2]		
Real Estate	2,912.6	2,587.4
SME	2,859.7	2,646.4
Consumer Lending	445.5	376.9
Retail Mortgage Brands	1,427.1	920.0
Other	291.8	232.9
Total credit risk	7,936.7	6,763.6
Counterparty credit risk: credit valuation adjustment	2.7	65.0
Securitisation exposures in the banking book	46.2	31.8
Operational risk	715.7	602.7
Total risk-weighted assets	8,701.3	7,463.1

1 Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. As a result, risk-weighted assets have increased by £80.6 million from £7,382.5 million to £7,463.1 million. Capital and leverage ratios have also been restated to reflect these adjustments.

2 Credit risk includes a breakdown by lending segment based on the revised lending segments as detailed on page 87. Prior year comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Capital ratios

	2023 %	2022 (Restated)[1] %
Common Equity Tier 1 capital ratio	12.9	12.7
Total Tier 1 capital ratio	14.3	14.3
Total capital ratio	16.4	15.6

Leverage ratio

	2023 £m	2022 (Restated)[1] £m
Total Tier 1 capital	1,241.8	1,070.9
Exposure measure		
Total statutory assets	17,236.2	13,938.7
Regulatory adjustments to statutory assets	(435.9)	(293.8)
Central bank claims	(2,188.1)	(2,037.1)
Off-balance sheet items	403.6	372.1
Exposure value for derivatives	161.6	340.0
Securities financial transactions	65.4	–
Transitional adjustment for IFRS 9	17.5	24.5
Regulatory deductions	(114.6)	(104.1)
Total exposures	15,145.7	12,240.3
UK Leverage ratio (%)	8.2%	8.8%

Principal risks: Market, liquidity and capital risk

IFRS 9 transitional arrangements impact analysis

As detailed on page 140, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following table provides a comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis).

	2023		2022 (Restated)[1]	
	Including transitional adjustments	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	1,118.7	1,101.2	948.0	923.5
Total Tier 1 capital (£m)	1,241.8	1,224.3	1,070.9	1,046.4
Total regulatory capital (£m)	1,424.9	1,407.4	1,165.0	1,140.5
Risk-weighted assets				
Total risk-weighted assets (£m)	8,701.3	8,686.1	7,463.1	7,442.7
Capital ratios				
Common Equity Tier 1 capital ratio (%)	12.9	12.7	12.7	12.4
Total Tier 1 Capital Ratio (%)	14.3	14.1	14.3	14.1
Total capital ratio (%)	16.4	16.2	15.6	15.3
Leverage				
UK Leverage ratio (%)	8.2	8.1	8.8	8.6

1. Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. As a result, risk-weighted assets (on both a transitional and fully loaded basis) have increased by £80.6 million. Capital and leverage ratios have also been restated to reflect these adjustments.

Principal risks: Operational risk and resilience

Managing operational risk and resilience	Developments during the year
The Group manages operational risk across eight level 2 risk categories, with the Risk Committee receiving regular reports across the spectrum of these operational risks. These reports present the operational risk profile, including incidents that have arisen and the movement of key indicators. This allows the Risk Committee to assess the Group's risk response and proposed remedial actions, including oversight of change projects. The risk and control self-assessment process is utilised by the Group as a key risk management tool for non-financial risks, including operational risk. This exercise is owned and completed by each customer franchise and function and takes into consideration control effectiveness and residual risk score across the Group's non-financial risks. The risk and control self-assessments are maintained in conjunction with the Group's operational risk team who provide challenge and oversight. Risk and control self-assessments are aligned to top risk profile reporting. To enable effective risk management, the Group focuses on identifying, monitoring and managing operational risk events in each business area, driving appropriate actions, and where needed re-engineering processes to minimise recurrence. All business areas have business continuity and resilience plans in place, supported by business impact assessments, with enhanced controls and documentation in place for important business services. The Group has an incident management framework in place that continues to identify and respond to operational disruption incidents to help maintain service continuity and prevent impact tolerance breaches. In addition, the Group uses external disaster recovery sites as back-up locations for IT servers.	During 2023, the Group continued to invest in its oversight of operational risk, with the appointment of a new Director of Operational Risk and Third Party Risk Management. The new role brings together the oversight of operational risk, third party risk management and second line monitoring under a single risk function in the second line. The Group implemented a new governance, risk, controls, and assurance (GRCA) tool that will bring together risks, controls, issue management and assurance activities into a single ecosystem. This tool is already being used to record issues and, following the approval of the new risk and controls taxonomy, is being rolled out across all customer franchises and functions, with oversight from a design authority, including participants from all three lines. Throughout 2023, the Group has continued to implement its operational resiliency roadmap and enhanced scenario testing through to the compliance milestone of March 2025. The Risk Committee approved the third annual operational resilience self-assessment in February 2024 and has approved additional non-time based impact tolerance metrics across both FCA and PRA objectives. A 'lessons learnt' process has also been embedded to provide greater root cause analysis when operational disruptions occur. The Risk Committee noted regular management updates on risk events and incidents through the year and management proposals to improve resiliency. Data management and privacy were two key focus areas for 2023, including enhancements to the Data Subject Access Request (DSAR) process and monitoring alongside a new working group to monitor progress on data anonymisation and deletion.

Principal risks: Technology and cyber risk

Managing Technology and cyber risk	Developments during the year
Customer expectations for service availability continue to rise with the rapid pace of new technologies, leading to a significantly lower tolerance for service disruption. The Group recognises that, in order to continue to be recognised for very high levels of customer satisfaction, it needs to continually monitor systems risk and ensure that change is delivered with minimum disruption to customers. The Group has continued to invest in its digital capability to improve customer experience and has invested in cloud technologies to increase the scale, stability and resilience of its systems. The Group has invested in a Third-Party Continuous Security Monitoring solution in order to mitigate the risks presented by key suppliers, particularly those that are responsible for managing the Groups data. The Group has also onboarded a new Governance Risk and Compliance system and in addition refreshed both the risk and controls taxonomies. During H1 2024 the Technology, Data and Cyber Security controls will be aligned to the new control taxonomy and this will enable more effective, data driven risk and control assessments.	During 2023, the Group has continued to invest in capability to reimagine the customer and colleague journey for digital savings. The launch of the new digital savings experience includes 1,000 existing customers to capture feedback to further improve the customer journey in advance of the start of the migration of all customers in Q2 2024. Additionally, the launch of the Colleague Hub within Real Estate has resulted in improved flight times for digital BTL customers as well as the ability for underwriters to handle up to 4 times more applications. The Group has ensured that Internal Audit reviews are regularly conducted and, in 2023, this covered the Digital lending journey, lending applications and structured lending system controls. All the agreed management actions for the internal audit observations identified were implemented by the end of 2023. Technology and data remain a core competency for the Group, with strong capabilities and foundations already in place. The Group has continued with its migration to the cloud, including key infrastructure following the acquisition of BML in June 2023 and the move of TML servers to the Shawbrook cloud. This also included the implementation of a new telephony system and upgrade of our windows infrastructure to maintain software currency. The successful migrations of our subsidiaries onto the Group's infrastructure provided technology consistency and enhanced the overall security controls across the Group. Incident Management and Disaster Recovery processes were fully tested following a service affecting incident at the end of 2023. Change controls have been enhanced during the Root Cause Analysis and Lessons Learnt phases. The Group has also procured additional infrastructure as a result. The Group continued to perform annual penetration testing ensuring that any internal or external issues were remediated, and project specific penetration testing linked to the go live of new systems (or major code/version/ infrastructure changes) were conducted during 2023. The embedding of the Group's software application security testing has matured during 2023, particularly in terms of management Information and oversight. Automated deployment pipelines have been configured to have an automated security scan stage which enforces compliance with policy. During 2024 this will be deployed across all pipelines to support faster and more secure code releases. The Risk Committee received an update on a Red Team Test covering open source intelligence gathering and a physical security phase in a number of key sites. The results demonstrated further progress in key areas of security awareness, preventative controls on phishing and other tests on infrastructure.

Principal risks: Strategic risk

Managing strategic risk	Developments during the year
Strategic risk focuses on large, long-term risks that could become a material issue for the delivery of the Group's goals and objectives. Management of strategic risk is primarily the responsibility of the Group's senior management team. The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting to the Executive Committee and the Board. Strategic risk also includes the Group's progress on equality, diversity and inclusion.	During 2023, the Group established regular portfolio reviews, with a focus on what could go wrong in order to identify whether any changes in risk appetite were appropriate. This was supported by the implementation of further early warning indicators to identify potential problem loans and to support key areas of operational readiness such as arrears and non-performing loans. The Group has made further progress on its Real Estate and Retail Mortgage Brands emission intensity and further progress towards its sustainable finance commitment of £1.2 billion of originations by 2025. In addition, the Group signed an agreement with Experian to start to collect operating location data for its SMEs to support a quantitative assessment of physical and transition risk and to support disclosures of SME lending emissions. The Group announced an extension of its partnership with Saracens for another five years, which will result in Shawbrook becoming official banking partners for all three elite teams for the next five years and continue to deliver a positive impact across women's sport, equality and inclusion. During the year, the Board received and approved a number of reports, including the strategy update. It has also actively engaged in the compilation of the Group's risk appetite, ICAAP, ILAAP, Recovery Plan and Resolution Pack, which are critical tools to managing strategic risk.

Principal risks: Conduct risk

Managing conduct risk	Developments during the year
The Group continually reviews its risk management approach to reflect the regulatory and legal environment in which it operates. The Group has no appetite for behaving inappropriately resulting in unfair outcomes for its customers.	The Group is aware of the potential impacts that increased cost of living pressures may have upon its customers. In response, the Group has reviewed the management of various associated conduct risks, with changes being made to the Group's affordability models, forbearance capabilities and approach to vulnerable customers. The Group implemented a new product transfer process to support customers coming to the end of their fixed rate period, with a further fixed rate product at a lower rate than the reversion rate to manage the impact of the increased mortgage payment following migration to the reversion product. Following an attestation by the customer facing franchises, the Group completed its implementation of the Consumer Duty (part 1 – open book). Part 2 (closed book) of the Consumer Duty regulation is in the process of being implemented. Ongoing monitoring of compliance with the regulation will be monitored through reports to Board, an updated risk appetite report, a customer experience dashboard, second and third line assurance activities and part of the existing annual RMF attestation each year. Further details on conduct matters the Group is involved in are provided in Note 47 of the Financial Statements.

Principal risks: Compliance and regulatory risk

Managing compliance and regulatory risk	Developments during the year
The Group continually reviews its risk management approach to reflect the regulatory and legal environment in which it operates. The Group has no appetite for behaving inappropriately resulting in unfair outcomes for its customers or reputation through non-compliance with regulation or standards of good practice. The Group has implemented safeguards and controls to prevent the misuse of its personal data which may constitute a breach of data privacy regulations. The Group continually reviews its data privacy framework to ensures it complies with any evolving regulatory and or legislative changes.	During 2023, the Group completed the implementation of a regulatory horizon scanning tool to enable more efficient tracking of regulatory change and provide the Group with management information including an up to date schedule of regulatory changes and a tracking implementation activities across the Group. The Group implemented a 'Speak Up' policy which enhances the Group's Whistleblowing Framework, encouraging employees to raise concern where they identify or observe behaviours that are inconsistent with the Group's values and ways of working. This approach is best practice and the Group is committed to continue to support 'Speak Up' through regular communications and drop in sessions throughout 2024. Market conditions have meant the Group has retained a number of securitisations on balance sheet that have been used to support useable collateral for liquidity. The Group has added additional controls and risk appetite measures to ensure that large exposure thresholds are maintained at all times. The Group has engaged with UK Finance and the PRA directly on the consultation on the final rules for Basel 3.1. The PRA have subsequently announced a delay to the implementation until 1 July 2025 followed by a shorter implementation period. Final rules for credit risk and pillar 2A are not expected until Q2 2024. To strengthen the Group's data privacy capabilities, Data Subject Access Request (DSAR) training sessions and workshops were arranged through the year. The Data Privacy Framework was improved through a review of roles and responsibilities and the increased use of technology improved business oversight of performance and trends as well as further automation. Refinements were made to the data inventory, One Trust, and Estate Searches to rectify inaccuracies and facilitate greater automation. A comprehensive review of all cross-border data transfers was completed to prepare for enhanced standard contractual clauses. A comprehensive policy revision was undertaken, alongside the establishment of a dedicated Working Group aimed at addressing legacy policy waivers and exemptions.

Principal risks: Climate risk

Managing climate risk	Developments during the year
The risks associated with climate change are subject to rapidly increasing societal, regulatory, and political focus. In line with regulatory requirements, the Group has embedded climate risk as a principal risk in the RMF to address the risks associated with physical risk and the risk from the transition to a low-carbon economy.	The Group has continued to invest in its climate data capability, transitioning to a more frequent assessment of its physical and transitional risk profile. This analysis has confirmed the ongoing improvement in EPC profile and a reduction in lending emissions for the residential and commercial investment portfolios. However, the way in which UK energy was created during 2023 was more carbon intensive, leading to only a modest reduction in relative lending emissions overall. The dependency on wider policy actions is clear and will influence lending emissions targets in the medium term. The Group has started its engagement with its SME customers on their ESG strategy with early findings designed to tailor further support and insights during 2024. The Group has engaged with an additional third party to establish baseline lending emissions numbers for its Enterprise SME portfolio and to further increase its coverage over in-scope portfolios. In October 2023, climate risk became one of the ten principal risks within the Group's RMF. In 2023, the Group originated £353 million of lending to properties with EPC A or B rating, against the wider target of £1.2 billion of sustainable financing by the end of 2025.

Principal risks: Financial crime risk

Managing financial crime risk	Developments during the year
The Group operates in a highly regulated market and has proportionate procedures in place to mitigate the risk of the Group's services being used to facilitate financial crime. The Group continues to monitor the increasing complexity of financial crime threats and any changes to the legislative and regulatory framework to manage any emerging risks.	During the year, considerable investment has been made in resources and technology to ensure that the Group's anti-money laundering and financial crime infrastructure and processes continue to operate rigorously. The Group continued to embed its new financial crime system during 2023, completing a number of key stages including the completion of loading the back book and establishing additional robust management information. The Money Laundering Reporting Officer has implemented enhancements to key policies including the anti-bribery framework and customer risk assessment methodologies. Key staff receive focussed training and all employees receive regular annual training in these areas, with their understanding being tested and levels of completion monitored through the governance framework.

Principal risks: Model risk

Managing model risk	Developments during the year
Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies and use historic data which may not represent future outcomes. Models are relied on to support a broad range of business and risk management activities across the Group including credit approval process, ECLs, stress testing, financial planning, pricing strategies, ALM, measurement of fair value for loans at FVOCI, estimation of Timeshare provision and climate change. Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions when required. Model risk remains heightened due to inflationary and cost of living pressures, interest rate rises and market volatility experienced during 2023.	The PRA published its Supervisory Statement SS1/23 'Model risk management principles for banks' in May 2023 with effect from May 2024. Although the principles do not apply to firms without an IRB permission, the Group has decided to implement a number of the recommendations as they are considered best practice. The Board has supported the implementation plans with the appointment of the Senior Independent Non-Executive Director as model risk champion, with a focus on data and model risk culture. Model risk became one of the Group's ten principal risks in October 2023. Responsibility for model risk is delegated from the Executive Risk Committee and the Chief Risk Officer (SMF for model risk) and oversight is provided by a Model Risk Committee. The Group has digitally enabled its model inventory to support the implementation of SS1/23 and has updated its model risk policies and standards to reflect the emergence of AI and machine learning. The Group has completed the implementation of a cloud native analytical environment using SAS Viya to support enhanced visualisation and support the implementation of machine learning applications. The Group has implemented a new credit grading model for owner occupied mortgages originated across all brands which has been implemented within the ECL and improved the credit grading coverage of the lending portfolios. This has been a key step in supporting the assessment of ECL on the FVOCI portfolios. The Group has also updated its models for climate risk and in particular refined its approaches for SME. Economic uncertainty may lead to some models operating outside of their development boundaries and the Group continues to monitor and consider potential actions on calibration or post model adjustments.

ICAAP, ILAAP and stress testing

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

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

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

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

Recovery Plan and Resolution Pack

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

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

The Recovery Plan and Resolution Pack is updated annually and was last approved by the Board in July 2023. The Recovery Plan or Resolution Pack can be updated more frequently in the event of a material change in the Group's status, capital or liquidity position. The Recovery Plan triggers are updated annually as part of the risk appetite update. The Board is fully engaged in considering the scenarios and options available for remedial actions to be undertaken.

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

Group viability statement

The Directors have assessed the outlook for the Group over a longer period than the 12 months required by the going concern statement that is set out in provision 31 of the UK Corporate Governance Code.

The Board considers a three year period to be an appropriate length of time for the viability assessment. A period of three years is applied because it mirrors the period covered by the Group's strategic planning cycle. The strategic planning cycle is used to generate the Group's strategic plan, which is reviewed, approved and monitored by the Board. Given the inherent uncertainty involved in forward planning assumptions, the Board considers three years to be appropriate for the assessment. The three year period is further supported by the annual ICAAP process, which models capital requirements over this period.

In assessing viability the Board has considered the following:

- updates to the business plans at various times during the year to assess current business performance and the impact of any emerging risks as identified through the Group's established RMF;
- the Group's current and forecast liquidity and funding plans supporting the strategic objectives;
- the top and emerging risks, including the overall control environment, for the Group as part of the regular and ongoing reporting to the Board. This included regular reviews on operational resiliency and an update on financial crime;
- the strategy and updated five-year plan, which were approved in December 2023. This included the business plans and financial projections from 31 December 2023 to 31 December 2028. The plan included various scenarios stressing the business performance, which demonstrated that the Group continued to operate within regulatory requirements for both capital and liquidity over the period;
- the quantity and quality of capital resources available to support the delivery of the Group's objectives. This included consideration of the effects of a changing regulatory landscape on the Total Capital Requirement, Pillar 2B and the CRD V combined buffer requirements, together with the effect of the Group's Recovery Plan to restore the capital position in scenarios of capital headwinds;
- the implications of implementing the minimum requirement for own funds and eligible liabilities in the event that the Group triggers the threshold and the impact on capital from implementing Basel 3.1; and
- the annual ICAAP and ILAAP, which were approved in April 2023 and January 2024, respectively.

In addition, the Board considered the outcomes of stress testing performed by the Group. As part of the ICAAP, the Group performed a variety of stress tests and reverse stress tests, which were derived after considering the Group's top and emerging risks, and were presented to the Executive Risk Management Committee and the Board. The Group also considered its funding and liquidity adequacy in the context of the stress testing and reverse stress tests. The stress tests performed enable the Board to assess the impact of a number of severe but plausible scenarios on its business model. In the case of reverse stress testing, the Board is able to assess scenarios and circumstances that would render its business model unviable, thereby identifying business vulnerabilities and ensuring the development of early warning indicators and potential mitigating actions.

As part of such stress testing, key ongoing risks were considered including:

- economic uncertainty arising from the ongoing increases to cost of living impacting interest rates, inflation and the wider UK economy;
- the risks associated with the impact of severe but plausible scenarios:
  - A scenario where the Bank of England base rate is assumed to fall from 5.25% to 2% by the end of 2025. This scenario assumes that UK Real GDP falls 5% and unemployment increases to 8.3%;
  - In the property stress scenario, the Group applied the assumption of residential property prices falling by 31% peak to trough before partially recovering to 20% lower in December 2028 than December 2023. Commercial Property Prices fall by 45% peak to trough by 2025 and recovering to 20% below 2023 prices at December 2028. It is worth noting that the largest falling UK property prices has been 20%;
  - A scenario where there is a structural change in the economic environment following a disorderly transition to net zero. In this scenario there is a 2% fall in UK GDP, inflation increases to 4.2%, household income falls by 1%, unemployment increases to 8.2% and residential property prices fall by 19%;
  - A scenario where the Bank of England base rate increase further to 7% by Q3 2024 before falling to 3% by December 2028 to explore a rates up scenario.

  Under all these scenarios, the Group demonstrated that it had the resources to meet its obligations over the forecast period and maintain a surplus over its regulatory requirements for both capital and liquidity following management actions that the Group has demonstrated that it is able to implement.
- legal and regulatory changes as a result of the ongoing implementation of existing EU legislation into UK law and the economic impacts from any changes to the UK's trading relationship with the EU; and
- financial risks arising from the physical and transitional impacts of climate change on the Group's business.

The Board believes these risks were captured within the stress testing scenarios used.

Following due consideration of the areas outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

Climate Report

This Climate Report outlines the approach we are taking at Shawbrook to tackle climate change, as well as the progress we have made during 2023 in delivering our strategy.

This Climate Report has been prepared in order to comply with the amendments made to the Companies Act 2006 requirements by The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The report is also aligned with the TCFD 2017 recommendations and the 2021 Annex[1] across all four TCFD pillars.

Our climate strategy continues to form a fundamental part of our ESG strategy and our climate ambition remains to support a balanced transition to net zero in the UK. From monitoring the Group's progress, to agreeing our Sustainable Finance Framework and undertaking climate training, the Board continues to actively oversee the Group's climate strategy.

John Callender
Chairman

1 The 2021 TCFD Annex provides both general and sector-specific guidance on implementing the Task Force's disclosure recommendations. Updates reflect the evolution of disclosure practices, approaches and user needs.

Strategy

Our climate strategy aims to support our customers in their transition to a low carbon future whilst managing the risks and opportunities associated with the shift towards net zero. It also sets out how we will mitigate climate-related risks and embed climate considerations into our wider strategy. We will continue to evolve our approach in response to changes in the external environment, while aligning to best practices as they develop over time.

Our strategic intent...

To enable a just transition[1] to net zero in the UK by leveraging our insights and expertise

...which has defined our transition plan and targets

1 **Supporting the transition**
Scale up finance and engagement to support customers' net zero transition

2 **Reducing our climate impact**
Reduce our climate impact from financing and operational emissions

3 **Embedding climate into our corporate DNA**
Integrate climate into how we think, act and make decisions

- £1.2 billion sustainable finance originations by end 2025[2]
- At least half of our suppliers net zero aligned by 31 December 2025[3]
- Net zero by 2035 for own operations[4]
- Net zero by 2050[5]

Our risks and opportunities

- Reputational damage
- Demand shifts for products
- Funding activity for mitigation and adaptation
- Increased costs from regulation
- Reduction in energy and carbon related costs
- New products and services
- Credit risk from reduced ability to repay loans and asset valuations

Processes to identify risks and opportunities

- Measuring emissions
- Qualitative scenario analysis
- Quantitative scenario analysis

1 We use the term 'just transition' to describe applying a social lens to opportunities and risks arising from the climate transition, with the interests of employees, communities and customers in mind, to ensure it is fair and inclusive for all actors in society.
2 For the period 1 January 2023 to 31 December 2025. Lending classified as sustainable finance will be based on internal criteria which has been developed using best practice and industry guidance including, but not limited to, Loans Market Association, International Capital Markets Association and EU Taxonomy.
3 Number of suppliers, with annual spend of over £200,000, that either have a net zero target for their own operations or have aligned to the Science Based Targets initiative (SBTi) approach for net zero.
4 This excludes purchased goods and services and financed emissions.
5 Scope includes own operations (scopes 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios and SME portfolios.

Strategy, transition plans and targets

Achieving net zero by 2050[1] demands a collective global effort to reduce greenhouse gas (GHG) emissions. This will be dependent on a combination of factors including government policies, grid decarbonisation, supply chain transformation and shifts in consumer behaviour. Given the complexity of this challenge, we have focused our actions and targets on areas that are within our sphere of influence. This is reflected through our short-term focus (current-2025) which is aimed at reducing our operational emissions and supporting our customers with their transition through our products and services. We remain committed to collaborating with others to address certain challenges, such as data availability and quality, to meet the goals of the Paris Agreement.

1 Scope includes own operations (scopes 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios and SME portfolios.

Our strategy encompasses three core pillars:

T Target M Metric

1 Supporting the transition

Scale up finance and engagement to support customers' net zero transition

- Sustainable finance lending
- Energy efficient mortgages and retrofit proposition
- Engagement with customers, partnerships and collaboration with industry bodies

Our short-term focus (current-2025)

- Continue to develop net zero roadmap including TPT-aligned transition plans[1]
- Continue to roll-out existing products and develop new sustainable finance products
- Deliver insights to help customers understand their climate impact

Metrics and targets

Sustainable finance

T £1.2 billion of originations by the end of 2025[2]

% EPC C+ rated properties

M Annual disclosure for owner occupied and buy-to-let portfolio

What we achieved in 2023

✓ £475 million provided through existing lending products against our Sustainable Finance commitment.
✓ Engaged with over 50 of our SME customers across a range of sectors on their climate and net zero plans, and the role that they see lenders playing in supporting the transition.

2 Reducing our climate impact

Reduce our climate impact from financed and operational emissions

- Reduce financed emissions
- Reduce operational emissions

Our short-term focus (current-2025)

- Continue to improve data quality and coverage of financed emissions calculations
- Reduce own operational emissions through climate objectives and considerations built into sourcing and procurement process

Metrics and targets

T **Net zero by 2050[3]**

Carbon neutral

T Maintain for own operations

Net zero aligned suppliers[4]

T At least half by the end of 2025

Net zero by 2035[5]

T For own operations

What we achieved in 2023

✓ Initial internal measurement of our SME financed emissions.
✓ Developed in-house process to measure financed emissions related to the Group Property Lending Portfolios.
✓ Developed strategic risk measures to support net zero pathway.
✓ Developed process to improve location mapping of SME customers to support physical risk assessment in SME and financed emissions.
✓ 53% of suppliers are net zero aligned.
✓ Developed offsetting strategy, targeting a diverse carbon credit portfolio.
✓ Achieved carbon neutrality.

3 Embedding climate into our corporate DNA

Integrate climate into how we think, act and make decisions

- Climate considerations embedded into lending, strategic and financial decisions
- Colleagues, Management and Board engaged on climate through awareness and training

Our short-term focus (current-2025)

- Develop climate-related employee communications and engagement plan
- Ongoing climate and net zero training
- Implement policy responses to manage physical and transition risks
- Track ESG/climate metrics in remuneration objectives

Metrics and targets

Executive remuneration

M Tracking ESG and climate metrics in the bonus scorecard design

Climate risk

M Annual disclosure on how we embed climate risk in the Group

What we achieved in 2023

✓ Completed Board training on climate and ESG which included a look forward to developing regulation and the broader sustainability landscape.
✓ Launched and rolled out climate change training to employees with 100% completion rate[6].
✓ Started embedding the climate portal in lending opportunities, counterparty assessment, and sector reviews.
✓ Climate risk designated as a principal risk in our risk taxonomy.

1 The Transition Plan Taskforce (TPT) was launched by HM Treasury in April 2022 to develop the gold standard for private sector climate transition plans. The TPT has developed a sector neutral disclosure framework for best-practice transition plan disclosures, alongside implementation guidance and sector guidance. The disclosure framework draws on the components identified by The Glasgow Financial Alliance for Net Zero (GFANZ) of a good transition plan, ensuring the outputs of both initiatives lock together to form an integrated approach to transition planning.
2 We have revised our initial commitment to provide £500m of sustainable finance (funding that aligns to the environmental criteria within the Group's Sustainable Finance Framework) to £1.2bn for the period 1 January 2023 to 31 December 2025.
3 Scope includes own operations (scopes 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios and SME portfolios.
4 Number of suppliers, with annual spend of over £200,000, that either have a net zero target for their own operations or have aligned to the Science Based Targets initiative (SBTi) approach for net zero. We have revised our initial target of at least 40% of suppliers being net zero aligned by the end of 2025 to at least half being net zero aligned by the end of 2025.
5 This excludes purchased goods and services and financed emissions.
6 Training was rolled out to all Shawbrook Bank Limited and TML employees in 2023, and BML in 2024.

Our transition plans cover our Enterprise franchise and Retail Mortgage Brands, encompassing mortgages and business lending. Our Consumer franchise is not currently within scope of our transition plans due to the nature of the lending where we do not have influence on how the proceeds are being utilised. During 2023, we also took a decision to withdraw from partner finance where loan terms are typically longer and could not have been considered for physical risk. In addition, we entered the motor finance market via a platform lending arrangement with Blue Motor Finance Limited. As a result, we plan to develop a transition plan for our Consumer franchise during 2024.

We have used the Glasgow Financial Alliance for Net Zero framework as a basis for development of our initial transition plans which covers foundation, implementation, engagement, metrics and targets and governance. During 2024, we plan to update these to align them to the Transition Plan Taskforce Disclosure Framework.

Property Transition Plan:

Increase **new lending** and build our core product range to support the transition

Work with industry bodies to collectively build a stronger voice on energy efficiency improvements in the built environment

Reduce emissions intensity across residential and commercial portfolio to achieve **net zero financed emissions by 2050**

Direct and indirect **customer communication** on energy efficiency and EPC improvements

Partnerships to offer customer awareness on energy efficiency improvements

Progress update:

- Increased new lending to higher rated Energy Performance Certificate (EPC) properties. We provided c.£350 million of lending during 2023 to properties with an A or B EPC rating, increasing from c.£250 million lending during 2022[1].
- Worked with industry bodies including UK Finance and the UK Green Building Council (UKGBC), including contributing to their white papers and research.

1 This covers Enterprise franchise and TML.

SME Transition Plan:

Understand customers' net zero priorities and plans, and explore partnerships to support their transition

Financing for energy efficiency improvements and net zero transition

Direct and indirect **customer communication** to raise awareness on energy efficiency and energy provision

Work with industry bodies to collectively build a stronger voice in the SME market on net zero

Own Operations Transition Plan:

Improve **energy efficiency** for existing estates

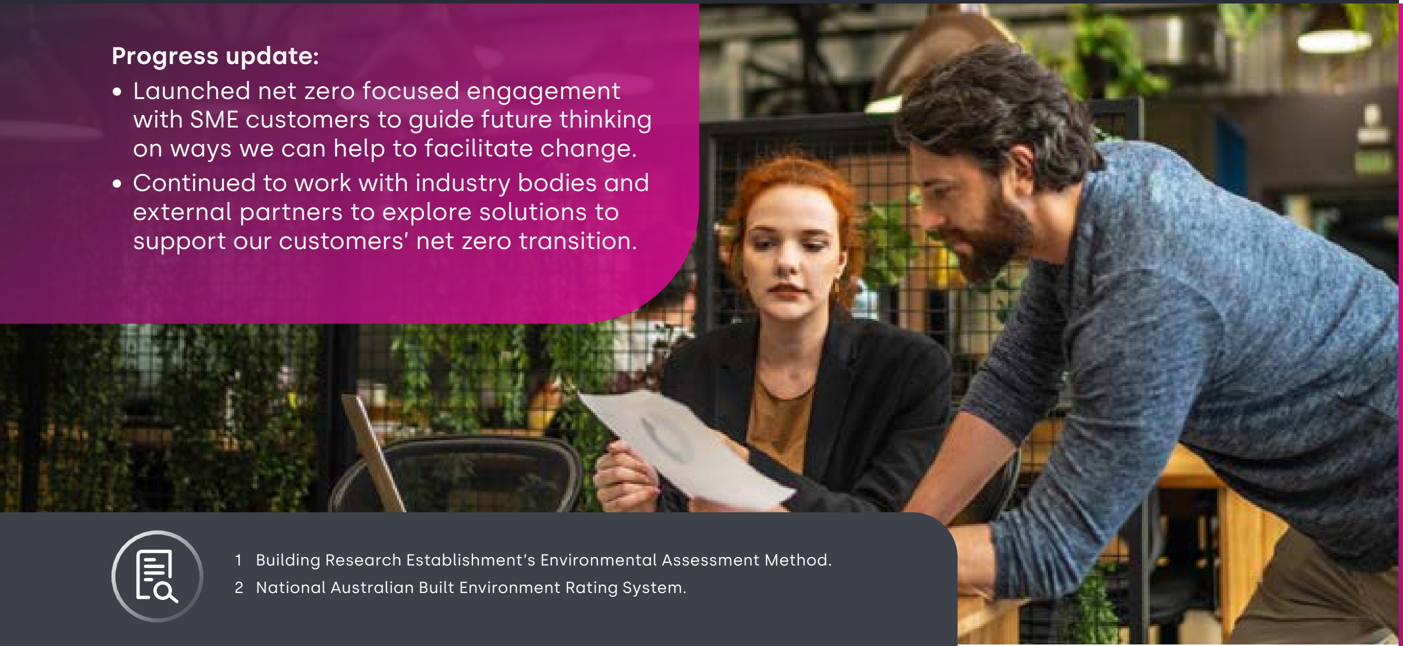
Climate criteria for new or renewed leases

Understand **transition plans** and implement climate assessment for new or renewed suppliers

Encourage lower carbon options for **employee travel**

Engage employees on climate aims and strategy, and utilise external experts to support awareness

Develop **offsetting strategy** to purchase high quality verified carbon credits



Progress update:

- Launched net zero focused engagement with SME customers to guide future thinking on ways we can help to facilitate change.
- Continued to work with industry bodies and external partners to explore solutions to support our customers' net zero transition.

Progress update:

- Hosted multiple internal employee climate events with external and internal speakers, to educate and raise awareness of our climate strategy.
- Engaged employees through a recycling drive in our offices. We also added additional recycling bins in our London and Glasgow offices to support this initiative.
- Started engagement with top suppliers to understand their climate plans.
- Developed our offsetting strategy, working directly with a project developer to purchase high-quality verified carbon credits, focusing on avoidance and removal projects.
- Climate principles built into sourcing process for new offices including energy efficiency requirements, renewable energy tariffs and construction type. At the end of 2024, we will be moving into a new London premises. The building is targeting an 'Excellent' BREEAM[1] rating and a NABERS[2] 5* rating.
- All of our sites, except one, that we have operational control over are on renewables tariffs.

1 Building Research Establishment's Environmental Assessment Method.
2 National Australian Built Environment Rating System.

Climate-related risks and opportunities

We have identified several climate-related transition and physical risks that could impact the Group, as well as opportunities that have been incorporated as part of our climate strategy. The table below outlines (1) the type of risk or opportunity, (2) the impacted area of the business, (3) the time horizon, (4) the expected impact and (5) our current and future mitigating actions or key initiatives. Our time horizons are short-term (0-2 years), medium-term (3-5 years) and long-term (>5 years). Long-term impacts are outside of the current planning horizon.

Climate-related risk	Area impacted	Time horizon	Description	Expected impact	Mitigations
Risk: Transition					
Market – Customer behaviour	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands	Medium-term	Consumer appetite for sustainable lending continues to change. There is a risk of misunderstanding what customers need when structuring our products.	Reduced demand due to shift in customer preferences.	• Regular customer and broker engagement. • Deep market expertise embedded within the business to understand customer needs and regularly review customer behaviour.
Policy – Energy efficiency regulation	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands	Medium to long-term	We are dependent on effective government policy to help drive financed emissions reductions. There is a risk that policies will not be in line with the UK's net zero commitment.	Reputational damage of not meeting targets.	• Agreed restrictions on new lending for properties rated below EPC E, unless exempt. • Half-yearly monitoring of EPC distribution including retention and attrition rates of EPC C+. • All lending within Development Finance must have plans to meet EPC C or above requirements.
Policy – Customer ability to increase efficiency	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands	Medium to long-term	Customers may struggle to fund energy efficiency improvements. This could mean customers' ability to repay loans decreases and asset valuations may fall.	Increased credit risk and collateral valuations decreases.	• Controls and flags in place to notify customers when lending on EPC D or E properties to consider future improvements to achieve EPC C or above requirements. • Plans to identify energy efficiency improvements and/or transition plans through customer engagement. • Actively monitor the market for signs and trends between falling property values and EPC ratings.

Climate-related risk	Area impacted	Time horizon	Description	Expected impact	Mitigations
Risk: Transition					
Policy – Carbon tax	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands • Own operations	Medium to long-term	Increased carbon pricing on our own emissions and customers operational emissions. This could mean increased operational cost for the Group and the customers' ability to repay loans decreases and asset valuations may fall.	Increased operational costs and customer credit risk.	• Engage with customers to understand their plans to reduce emissions and improve their energy efficiency including the potential costs to their business of an increase in the cost of carbon. This will also support in improving business continuity risk. • Enhanced due diligence carried out for high carbon sector transactions to understand decarbonisation plans. • Implement carbon savings and energy efficiency improvements in existing offices to reduce own operational emissions. • Climate and energy efficiency principles built into sourcing process for new offices.
Policy – Enhanced reporting and regulatory requirements	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands • Own operations	Short and medium-term	Current metrics and disclosures could be considered insufficient or misleading as reporting requirements continue to evolve.	Reputational damage and compliance issues.	• Climate expertise embedded within the organisation to understand and comply with current and upcoming requirements. • Developing data to report carbon footprint and reduction targets to meet future reporting requirements.
Technology – Costs to transition to lower emissions technology	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands	Medium-term	New technology could be required across all sectors intended to reduce emissions, which could result in devaluation of existing technology.	Increased credit risk and collateral valuations decreases.	• Continue working with industry bodies to increase customer awareness of the benefits of reducing emissions to mitigate risk of retrofit solutions being expensive in the short term.
Reputational – Increased scrutiny of our role in transition from lending (financing) and business (operations)	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands • Own operations	Short and medium-term	Current exposure to high emissions sectors and our role in the transition including impacts on mortgage and commercial customers.	Reputational damage and reduction in demand for our products.	• Active monitoring of new lending to high climate risk sectors with enhanced due diligence requirements. • Climate considerations in all credit papers and own operations including new suppliers and requirements for new offices. • Climate oversight at Board to ensure we are progressing against our climate strategy.
Risk: Physical					
Acute – Severe weather events **Chronic – Changes in precipitation patterns and temperatures**	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands • Own operations	Long-term	Disruption due to physical events; damaged assets and/or business disruption due to physical impacts.	Increased credit risk and collateral asset valuations.	• Monitoring of flood risk for property exposure across the Group. • Flood risk monitoring for our own operations and key suppliers. • Scenario analysis includes physical impact scenario on our property portfolio. • Integration of climate risk into business resilience scenarios.

Climate-related opportunity	Area impacted	Time horizon	Description	Expected impact	Mitigations
Products and services	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands	Medium-term	Financing the transition focusing on the delivery of energy efficient and low carbon solutions.	Increased revenue through additional funding provided.	• Actions have been taken across the Group to develop our sustainable finance proposition which includes providing a discount for EPC A-C rated BTL mortgages and funding electric and hybrid vehicles through our Digital SME business. • Further new sustainable lending opportunities are currently being explored.
Partnerships	• Enterprise franchise (Real Estate and SME) • Retail Mortgage Brands • Own operations	Short-term	Collaboration enables acceleration of key opportunities.	Increased revenue through additional funding provided.	• We are members of trade bodies that seek to advance the UK's net zero agenda and have participated in various industry forums on this agenda. • We aim to continue to collaborate with partners across the industry to further develop opportunities to enable the net zero transition.
Energy source	• Own operations	Medium-term	Increased use of renewable energy.	Reduced exposure to GHG emissions and reduced sensitivity to changes in cost of carbon.	• All of our sites, except one, that we have operational control are on renewables tariffs[1].
Energy efficiency	• Own operations	Medium-term	Increase energy efficiency within our property portfolio.	Decreased GHG emissions and operational costs.	• We continue to focus on increasing energy efficiency across our own operations, working with landlords to implement changes. This includes LED lighting and installing smart meters to monitor energy usage. • We have established energy efficiency principles into the procurement process for new offices.

1 As at 31 December 2023.

Process to identify risks and opportunities

We utilise a suite of tools and processes to identify risks and opportunities presented by climate change relating to our lending activities. These cover emissions measurement and both qualitative and quantitative scenario analysis.

Measuring building emissions and EPC data gathering	At an individual property level, we use EPC data to measure emissions and ascertain issues affecting transition as well as a view of the property's potential energy efficiency.
Measuring SME-linked financed emissions	Our SME customers are typically small companies who are not mandated to produce emissions figures under current regulation. During 2023, we engaged a third party to identify trading locations for our SME customers and, where possible and appropriate, their lending emissions. This will enable us to establish a baseline from which to measure progress over time and consider appropriate medium-term metrics and measures to support the transition to net zero. This new data has been shared with our climate data partner to assess the physical and transition risks and opportunities that may exist for each customer and will be further developed during 2024.
Qualitative scenario analysis	We analysed climate risks using the 2021 Climate Biennial Exploratory Scenario (CBES) (early, late action, and no action) over 30 years. These scenarios assumed varying levels of policy intervention to reduce carbon emissions. This analysis helped us understand potential transition and potential risks that could impact our business. Using a proportionate approach based on exposure levels, we selected five sectors for in-depth transition risk analysis. These sectors made up c.90% of our Enterprise franchise and Retail Mortgage Brands.

Quantitative scenario analysis	We have completed our second quantitative scenario analysis using the late action scenario, assuming a disorderly transition, published within the 2021 CBES. We tested our strategy and business model at 31 December 2023 but assuming the date was 31 December 2030. We assessed the impact of the macroeconomic pathway as well as physical and transition risk for all of our lending portfolios where appropriate and proportionate. We also expanded our climate measurement to our SME customers as we believe we can use our expertise to help them prepare for the transition. This analysis has shown that the cumulative losses expected over a 5-year period post-2030 when compared with the Group's 2024 budget scenario are broadly consistent with the conclusions of the 2021 CBES compared to the counterfactual scenario, particularly for the Group's property-related lending. Compared to the 2024 budget, which does not include any additional climate specific risk, our cumulative increase in credit losses is 367% higher in the Real Estate lending portfolio where we have measures of physical and transition risk, which compares to 160% higher for firms covered by the CBES.
Physical risk assessments – lending	We have partnered with a leading climate-related data partner, CLSQ and D-Risk to measure potential flood damage across the Group's Property Lending Portfolios and SME operating addresses. We have used the floodability index which uses a Green, Amber, Red, Black 1 and Black 2 rating to categorise the risk of flooding. This is widely used by lenders and valuation surveyors to provide a consistent view across the property market.

Physical risk assessment – own operations	We have completed a physical risk assessment of our own operations under flood, subsidence and coastal erosion climate perils. This includes the operational centres of our UK material outsourcers. The following scenarios were assessed: • **Flood risks under four climate scenarios (RCP 2.6, 4.5, 6 and 8.5) at three points in time (2030, 2050, 2080)**: One of our sites and one outsourcer site identified. • **Coastal erosion rates for locations within 1km of the coastline up to 2100:** No office locations or current material outsourcers. • **Subsidence risks from a historical perspective (1961-90) and future perspective (2020-49; 2040-69):** Number of sites subject to elevated subsidence risk. Our third-party oversight team within Operational Risk have engaged with internal relationship owners to determine what business continuity plans are in place to support an assessment of residual risk, of which none are outside of risk appetite. We are considering developing our own base case during 2024 to support strategy and planning.
Transition risk assessment – own operations	We have measured our Scope 1 and 2 emissions as well as relevant Scope 3 emissions for our own operations. We have develop a plan to achieve net zero for our own operations by 2035 which include the use of renewable resources and the purchase of carbon offsets, which we intend to reduce over time.

Strategic resilience

Our strategy is aimed at supporting our customers' transition to net zero and is therefore impacted by climate-specific risks. We see the transition as an opportunity, particularly in our Enterprise (Real Estate) business and Retail Mortgage Brands where policy interventions have already been taken including a minimum EPC level and updates to our terms and conditions. There are inherent risks in not recognising the technological change as well as changes in consumer demand which may lead to adverse selection and a portfolio of loans which is less re-financeable and at risk of reduced collateral prices and/or increased customer defaults.

We have completed our second annual quantitative assessment of the climate related scenarios using data that we have received from CLSQ and D-Risk, our climate data partner. We have used the data to identify specific physical and climate related adjustments to both customer default and collateral valuations through which we can apply our stress testing approaches to assess the impact of late policy action scenario within our Pillar 2B assessment as part of our Internal Capital Adequacy Assessment Process (ICAAP). For 2023 this includes a more detailed assessment of physical and transition risk where it is appropriate to do so. Pillar 2B is an assessment of risks over a 3-to-5 year period that are not currently picked up under Pillar 1 capital rules.

Input into financial planning

Qualitative horizon scanning relating to climate change forms part of our macroeconomic trends analysis that accompanies the financial plan. In 2023, we used the outputs from quantitative scenario analysis as an input into the ICAAP process which spans five years. This analysis will influence key financial metrics such as revenue and capital by testing the impact of climate change on our strategy and business model. Our investment in data and technology, which will be a key enabler for our response to climate change, is factored into our operational budgets out to 2028.

Governance

The oversight and management of climate-related risks and opportunities is integrated into the Group's governance structure. A summary is shown in the chart opposite.

Further information on both the Board and Management's role in overseeing and assessing and managing climate-related risks and opportunities is included in the sections below.

Please refer to the following pages in the Governance report for further information:

Pages 53 to 55 – our Board member profiles and committee memberships

Shawbrook Group Board

Responsible for setting the strategic aims and promoting the long-term sustainable success of the Group.

Audit Committee

Responsible for internal controls and financial reporting including non-financial disclosures.

Remuneration Committee

Responsible for reviewing and approving performance measures including those relating to purpose and climate.

Risk Committee

Responsible for advising the Board on current and future risks and determination of risk appetite including climate and strategic risk.

Executive Committee

Supports the Chief Executive Officer in discharging his accountabilities including consideration of ESG strategy, trends and commitments.

ESG Panel

Evaluates transactions identified as having high environmental and/or social risk. Comprises the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer.

Executive Risk Committee (ERC)

Supports the Chief Risk Officer in considering enterprise-wide risks including climate risk reporting and delivery against regulatory plans.

ESG Sub-Committee

Responsible for developing and overseeing the delivery and implementation of the ESG strategy. Also acts as the principal forum overseeing the activities of the Climate Working Group and the Emissions Measurement Working Group, and supports programme relate decision-making as appropriate. Reporting/escalations to the Board via the Executive Committee.

Climate Working Group*

Responsible for delivery of strategy relating to climate-related risks and opportunities. Focused on key themes: capability, governance and leadership, risk management, reporting and KPIs, climate data and measurement, operations, sustainable (green) finance and external engagement.

Emissions Measurement Working Group

Responsible for delivery of strategy related to climate-related emissions, including measurement and assurance activities for both financed and operational emissions.

Key Board level committees | Executive level committees | Working Groups

* The Climate Working Group was established in Q1 2024 and replaces the Sustainable Finance Working Group and Climate Risk Working Group, combining them into one forum.

Board's role and activities

The Board sets the Group's strategic goals, including climate priorities, promoting the long-term sustainable success of the Group for the benefit of all our stakeholder groups. The Board is responsible for overseeing our approach and response to climate change, including monitoring progress against agreed targets.

The Board discusses climate-related matters throughout the year, with formal updates received at least twice a year, covering climate-related risks and opportunities as well as progress against the agreed strategy. The Board also receives regular training to keep abreast of the evolving external landscape. Some aspects of climate governance are delegated to Management committees, as shown in the governance structure chart on page 164.

During 2023, the Board continued to be engaged in all aspects of our climate strategy. Key topics of engagement included:

- Reviewed and approved the Group's 2022 TCFD Report.
- Agreed the 2023 climate priorities and key metrics and targets to formally track.
- Participated in an interactive demonstration of the climate portal. See spotlight opposite for further information.
- Reviewed the evolved Sustainable Finance Framework which includes definitions for what constitutes sustainable finance lending.
- Agreed the inclusion of, and progress against, ESG and climate metrics in the bonus scorecard.
- Approved the climate risk appetite statement and a number of property-based risk appetite limits that provide the framework for future risk appetite limits that are aligned to interim targets and measures.

Spotlight
Our climate portal

Data is at the heart of our climate strategy, enabling us to review, manage and mitigate climate-related risks. Our loan portfolio climate data is available through our climate portal using APIs to help embed climate considerations into our digital lending journeys, with more granular data available where an individual counterparty approach is required.

In May 2023, the Board participated in an interactive demonstration of the climate portal, where in real time they experienced the benefits of adopting a data-driven approach to managing climate risk.

Management's role and activities

The Board delegates responsibility for the delivery and execution of the Group's climate strategy to the Chief Executive Officer, supported by the Executive Committee, which is responsible for ensuring that the climate strategy is embedded across the Group. Under the oversight of the Board, Management is responsible for continuing to identify, measure, manage, monitor, report and challenge on both climate-related risks and opportunities. To ensure climate action remains a top priority, climate metrics have been integrated within the bonus scorecard design.

During 2023, the ESG Sub-Committee continued to steer key aspects of the climate strategy, including:

- Reviewed and agreed Group-wide all employee climate training.
- Reviewed operational carbon footprint results.
- Reviewed the 2022 TCFD Report.
- Agreed the climate-related employee communications plan, including lunch and learn sessions.
- Reviewed progress against climate-related metrics ahead of discussion with the Executive Committee and the Board.

Chief Executive Officer	The Chief Executive Officer owns the development and delivery of sustainable performance, purpose and ESG strategy, which includes overall accountability for climate-related risks and opportunities. Through the Executive Committee meetings, climate-related matters are discussed throughout the year, with formal updates received at least twice a year.
Chief Risk Officer	The Chief Risk Officer (CRO) is the Senior Manager accountable under the Prudential Regulatory Authority's (PRA) Senior Managers and Certification Regime for identifying and managing the risks arising from climate change. Climate considerations are included in the regular monthly update to the Executive Risk Committee.
Chief Financial Officer	The Chief Financial Officer has accountability for measuring financed emissions and incorporation of climate considerations into strategic financial planning.
Customer franchise heads	The Group's four customer-facing heads are responsible for aligning their strategic actions to respond to climate change by managing associated risks and opportunities, including meeting climate commitments.
Executive Committee	The Executive Committee is supported in climate-related matters by the ESG Sub-Committee, chaired by the Chief of Staff, and its working groups. The ESG Sub-Committee has delegated responsibility from the Executive Committee to steer and provide oversight of the Group's ESG strategy including climate-related aspects. The ESG Sub-Committee convenes key senior representatives at least quarterly to oversee implementation of the Group's climate strategy and embedding of climate-related deliveries into BAU activities, and track progress against internal and external climate metrics and targets.
ESG team	The ESG team (reporting into the Chief Executive Officer) works in partnership with key stakeholders across the Group to develop and deliver the climate strategy and has accountability for measuring emissions from own operations.

Training on climate issues

The Board and Executive Committee received periodic updates from internal subject matter experts on climate topics throughout the year. In January 2024, externally facilitated climate training was provided to the Board, focused on upcoming sustainability reporting requirements and the evolving landscape, to enhance Directors' climate-related knowledge. The combination of these is designed to give the Board an informed perspective when shaping and challenging the Group's strategic climate goals and external disclosures.

Mandatory climate training was provided to all employees during 2023, helping to embed climate within our corporate DNA, with a 100% completion rate[1]. The training covered the causes and impact of climate change, actions to address it and the Group's climate strategy and targets. We plan to develop and build on this training in the short-term planning horizon, targeting specific roles and areas of the business which are likely to be most impacted by climate issues.

1 Training was distributed to 1,387 employees who joined before 1 October 2023 across Shawbrook and TML. BML will complete the training in Q1 2024. New joiners (post 1 October 2023) will complete this training as part of their new joiner induction.

Risk management

We are aware that climate change represents an inherent risk to the Group, including the impact on the UK economy, asset values, customer affordability and operational risks. Our objective is to continue to measure and embed climate risk within the Group to evolve our assessment of the risks and identify and deliver opportunities arising from climate change.

We classify climate-related risks as follows:

Physical risk

Physical risks can appear in a variety of forms. For instance, changes in water availability, sourcing and quality, food security and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs and employee safety.

Two main types:

- **Acute physical risks** refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes or floods.
- **Chronic physical risks** refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea levels to rise or chronic heat waves.

Transition risk

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Examples include implementing carbon pricing mechanisms to reduce GHG emissions, shifting energy use towards lower emission sources, adopting energy-efficiency solutions, encouraging greater water efficiency measures and promoting more sustainable land-use practices.

- **Policy risks** arise if we take policy actions that attempt to constrain actions contributing to the adverse effects of climate change and seek to promote adaptation to climate change.
- **Legal risks** include the failure of organisations to mitigate impacts of climate change, failure to adapt to climate change and the insufficiency of disclosure around material financial risks.
- **Technology risks**, for example, the development and use of emerging technologies such as renewable energy, battery storage, energy efficiency and carbon capture and storage will affect the competitiveness of certain organisations, their production and distribution costs.
- **Market risk** could be impacted by shifts in supply and demand for certain commodities, products and services as climate-related risks and opportunities are increasingly taken into account.
- **Reputational risks** tie to changing customer or community perceptions of an organisation's contribution to or detraction from the transition to a lower-carbon economy.

Litigation risk

Litigation risk is defined as the risk of legal activity as a result of climate change. The risk arises from people or businesses seeking compensation for losses they may have suffered from physical or transition risks.

Risk Management Framework (RMF)

We recognise the cross-cutting causal nature of climate risk and, during 2023, elevated climate risk as a principal risk in the Group's risk taxonomy to ensure that the RMF is able to support the Group's growth and manage the associated risks.

In order to embed climate risk into the RMF, it is cascaded from the Board (through risk appetite) to underwriting decision-making. See Risk Report on page 90 to see how climate risk is embedded within our overall RMF.

To promote embedding, our climate risk standard supports principal risk owners with the identification, management and reporting of climate risk. The process for identifying, assessing and managing climate-related risks follows the six stages set out in the Group's RMF and are reflected in all risk policies and include:

1. Identification
2. Measurement
3. Management
4. Monitoring
5. Reporting
6. Challenge

The purpose and requirements of each stage are outlined in the following sections.

1. Risk identification

To identify the risks that may impact the Group, we require in-depth knowledge of our strategic objectives, business, target markets and structure and includes:

- We have partnered with CLSQ and D-Risk to procure climate data on our lending portfolios where it is proportionate to do so. This includes coastal erosion, surface water flooding and subsidence under a number of different RCP adopted by the Intergovernmental Panel on Climate Change (IPCC). The data also includes the average damage ratio (ADR) for buildings under the same pathways. For transition risk the data includes actual and potential EPCs for residential and commercial properties including the top 10 improvement initiatives and indicative costs. The data includes key information on year of build, build area and emissions numbers. Our licence allows us understand how the book is performing versus baseline emissions through a six-month full back book review and through an application programming interface (API) to support implementation into lending strategies.
- We have partnered with Experian to procure operating location data for our SME customers through which comprehensive physical and transitional risk assessment can be made together with a lending emissions baseline data for 2023. This work will develop further in 2024.

2. Risk measurement

Risk measurement quantifies the risks to the Group to enable assessment and selection of the appropriate means of managing the risk and to enable appropriate resources to be dedicated to the management of risk.

Appropriate systems, methodologies and models are selected for risk measurement and their limitations understood and taken into account where possible. We consider the consistent application of planned and stressed conditions into the tools and measurement of risk.

3. Risk management

Risk management involves identifying an appropriate strategy to address the risk in question. This includes the selection of one of the following risk responses or strategies:

- **Accept the risk** – this is normally selected where the cost of mitigating the risk is more than the loss if the risk was to materialise;
- **Avoid the risk** – by terminating the activity that generates the risk;
- **Transfer the risk** – by transferring to a third party, for example by taking insurance; or
- **Mitigate the risk** – by putting effective controls in place to mitigate the risk.

Our primary risk management strategy for climate risk is to use the data and insights from scenario testing to mitigate the risk. This includes the implementation of policies to support customers in the transition to a low carbon economy through the provision of financing. There are also some areas where we will seek to avoid the risk in areas where it may impact the net zero trajectory or where the physical risk is not inside appetite.

4. Risk monitoring

We use physical and transition risk management information to monitor the evolution of climate risk within our lending portfolio. This includes setting targets for EPC mix and physical risk exposure and management information to assess the extent to which we are subject to strategic risk through adverse selection. For SME customers this may also include continuity or resiliency scores to support engaging customers on the risks to their strategy and business model in addition to the risks attached to servicing lending commitments.

5. Risk reporting

We report on climate risks regularly through the Executive Risk Committee and onwards to the Risk Committee and Board. This includes performance against risk appetite metrics and the results of our quantitative scenario analysis through the ICAAP.

6. Challenge

Challenge of the climate strategy is provided by the governance process of the Board and supported by assurance reviews provided by the Group internal audit function.

Some examples of work completed during 2023 to incorporate climate risk into existing principal risks include:

- Climate risk embedded within the terms of reference for each Board and Executive sub-committee where appropriate;
- Climate risk embedded in 26 policies to promote the embedding of climate risk in each customer-facing business and central function;
- An enhancement to the origination journey was implemented for buy-to-let to assess the transition risk by reviewing the energy efficiency of properties including the EPC rating to support both climate assessment and legal or regulatory requirements;
- For lending secured on residential and commercial properties, an analysis of the energy efficiency of the property was undertaken together with an assessment of exposure to flood, coastal erosion and subsidence;
- For SME lending an analysis of the business continuity score was assessed; and
- Within operational risk, enhanced guidance was provided to support the assessment of climate risk within the risk and control self-assessment (RCSA).

We have undertaken qualitative scenario analysis using the scenarios published as part of the 2021 CBES and developed and implemented our approach to embed the impact of climate change quantitatively within the ICAAP.

Risk appetite

Our risk appetite statement is the written articulation of the aggregate levels and types of risk that the Group is willing to accept, within our risk capacity, or wants to avoid in order to achieve our business objectives. The process to agree our risk appetite is set annually alongside the Budget and five-year plan and is approved by the Board. The risk appetite statement includes a qualitative statement supported by several risk appetite objectives and dimensions and a series of quantitative triggers and limits. Each measure in our risk appetite report is weighted to ensure that the most material measures drive the escalation of a breach of dimension and ultimately an objective.

Risk management plays an active role in our strategic planning process. As part of the strategic planning sessions, the Group Risk function compares the impact of the Group's plan to the risk appetite and has the authority to independently challenge and escalate those initiatives that are not in line with the risk appetite statement.

Climate risk was promoted to a principal risk during 2023 to reflect the growth in complexity of the Group and the associated risks it faces, The Board approves and reviews performance against the Group's risk appetite limits including climate measures which continue to be developed alongside the development of new measures. Our risk appetite statement, objectives and dimensions are set out in the Risk Report on page 86.

Triggers are applied as 'early warning indicators' to prompt early action in order to avoid a more serious limit breach. In the context of climate risk we have set metrics to manage strategic risk by focussing on metrics such as potential EPC on the buy-to-let and owner-occupied mortgage portfolios.

Our risk appetite statement in relation to climate risk is:

"The Group is committed to understanding the impacts its activities can have on the environment and embeds this understanding of physical and transition risks within its purpose led ESG strategy. The Group will support its customers with financing for their transition to a low carbon economy and play its part in supporting the government's commitment to net zero by 2050."

Risk management lifecycle

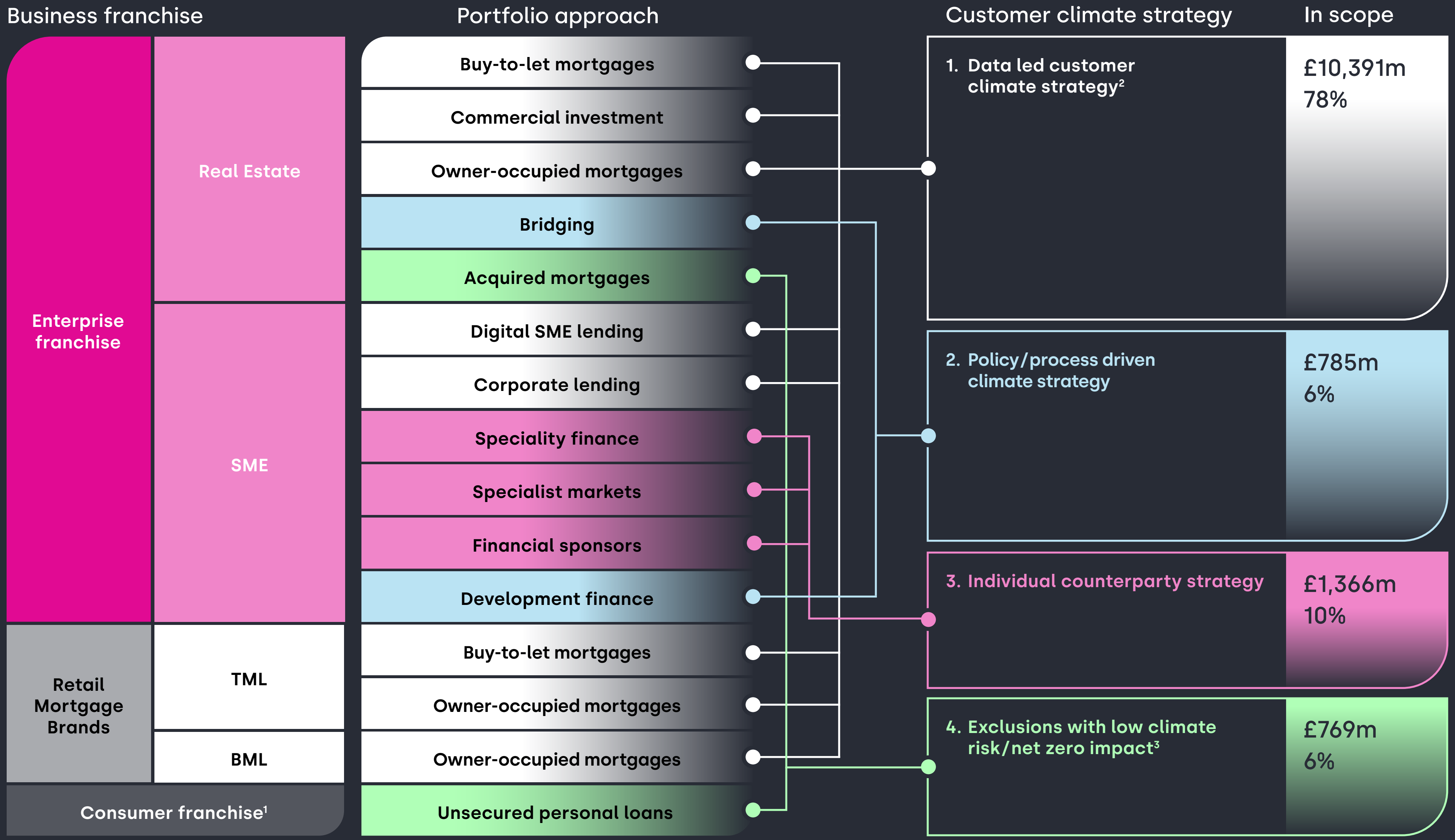
Climate will impact different risk types, with the most material captured through a risk analysis we conducted of our assets and liabilities. This exercise highlighted the priority areas for embedding in the RMF. This analysis concluded that strategic risk, credit risk and liquidity risk are the primary areas of focus, followed by operational and conduct risk.

Strategic risk

We face many different types of risk, but one of the primary risks is strategic risk arising from the failure to execute the Board approved strategy. In a climate context, we believe that this could be evidenced through adverse selection which may lead to us taking a concentration in a particular area that does not support the long-term viability of the business or may expose us to concentrations that are not in line with external expectations. We have developed a series of key risk indicators in support of our risk appetite to continually monitor performance. We have established a set of metrics to quantify the extent to which adverse selection is impacting performance.

Credit risk

We have developed a bespoke approach to prioritise the assessment of climate risk within credit risk, involving three strategies covering 94% (2022: 95%) of the net loan book. These are summarised on the next page including a mapping of our exposure to each strategy. Exclusions relate mainly to acquired portfolios or loans with a short tenor where there is very limited physical or transition risk. This approach has been developed to demonstrate the proportionate approach we have taken to assessing climate risk in line with the requirements of the PRA's supervisory statement SS3/19 and guide our approach to using our expertise to support our customers in the transition to net zero.



Source: Shawbrook net loan book at 31 December 2023

1. Data-led customer climate strategy

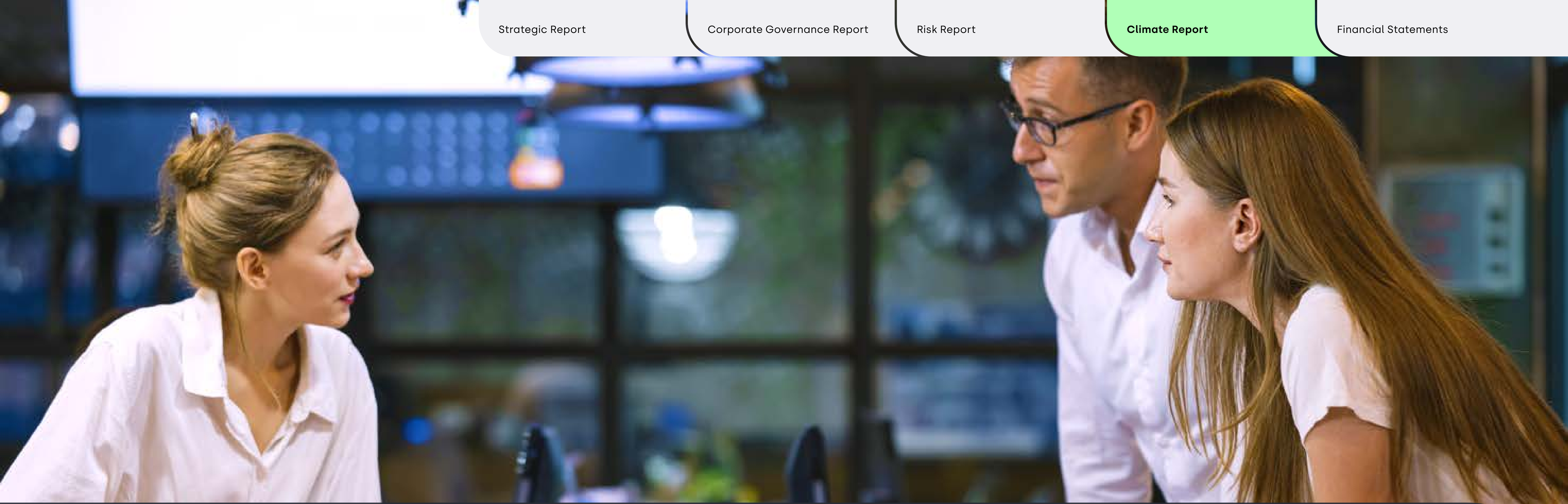
Our data and API driven climate strategy applies to 78% (2022: 76%) of the net loan book. These are predominantly areas where we lend over the longer-term using term loans. The asset classes included in this assessment are term buy-to-let mortgages, commercial investment, owner-occupied mortgages, digital SME and corporate lending businesses within our Enterprise franchise and Retail Mortgage Brands.

For these asset classes we obtain physical and transition risk data from our climate data partner for our entire back book every six-months and have the ability to do so more frequently if required. This allows us to continue to review the physical risk attached to flooding and subsidence risk and the transition risk attached to property EPCs and expected emissions derived from energy costs.

The insights gained from the physical and transition risk data have already led to the support of new product developments, strategy developments and policy rules. These include supporting customers in the transition to an EPC rating of a C or equivalent or above and specific policy rules to support the appropriate valuation for investment properties.

For a large number of these opportunities, we are able to deliver the climate data through an API to support a frictionless origination journey and provide more certainty to customers on the outcome of the lending journey. These changes complement the work we've completed on the MyShawbrook portal for Real Estate customers.

1 In 2023, we entered the motor finance market via a platform lending arrangement with Blue Motor Finance Limited. This is currently in the excluded category but we plan to develop a transition plan during 2024.
2 This includes second charge mortgages within our back book.
3 This exclusion extends to partner finance loans within our back book.



2. Policy and assurance strategy

Building regulations and the development of policies to promote the use of modern building techniques will be important in the development of sustainable housing. This is particularly important in bridging finance and development finance which are strategically important asset classes that make up 6% (2022: 7%) of the net loan book. We use independent monitoring surveyors to confirm at each stage that the property development is progressing in line with our policy.

We have the benefit of a portal to check the surrounding area to complete a physical risk assessment including flood and subsidence risk that we use to ensure that any completed property is capable of being refinanced at exit under normal insurance terms.

3. Individual counterparty strategy

There are situations where we will need to apply a climate lens to our lending strategy through a more tailored approach. To support this, we are refining the approach to material counterparties to include questions that may identify the key climate risks that each counterparty has. The climate data that is available as part of the API and back book analysis is also available through a portal which helps to inform our relationship management teams prior to engaging with customers.

4. Exclusions

We have taken a proportionate approach to our climate risk assessment. This means that we have not sought to complete a detailed climate risk assessment for short tenor products where the physical or transition risk is not believed to be material. This applies to our Consumer franchise and acquired loans in the Enterprise franchise that are in run-off. Together these loans make up 6% (2022: 5%) of the Group's net loan book.

Impact against other risk types

We extend our risk management process to affiliates and other principal risks over time including the delivery of climate change opportunities and through the embedding of policy changes to ensure there is no climate arbitrage across the Group.

Top and emerging risks

Our top and emerging risks are identified through the process outlined in the RMF and are considered regularly by the Executive Risk Committee and subsequently by the Risk Committee. These are set out in the Risk Report on page 94.

The Board has considered the top and emerging risks and concluded that climate risk remains a top risk in 2023.

Metrics and targets

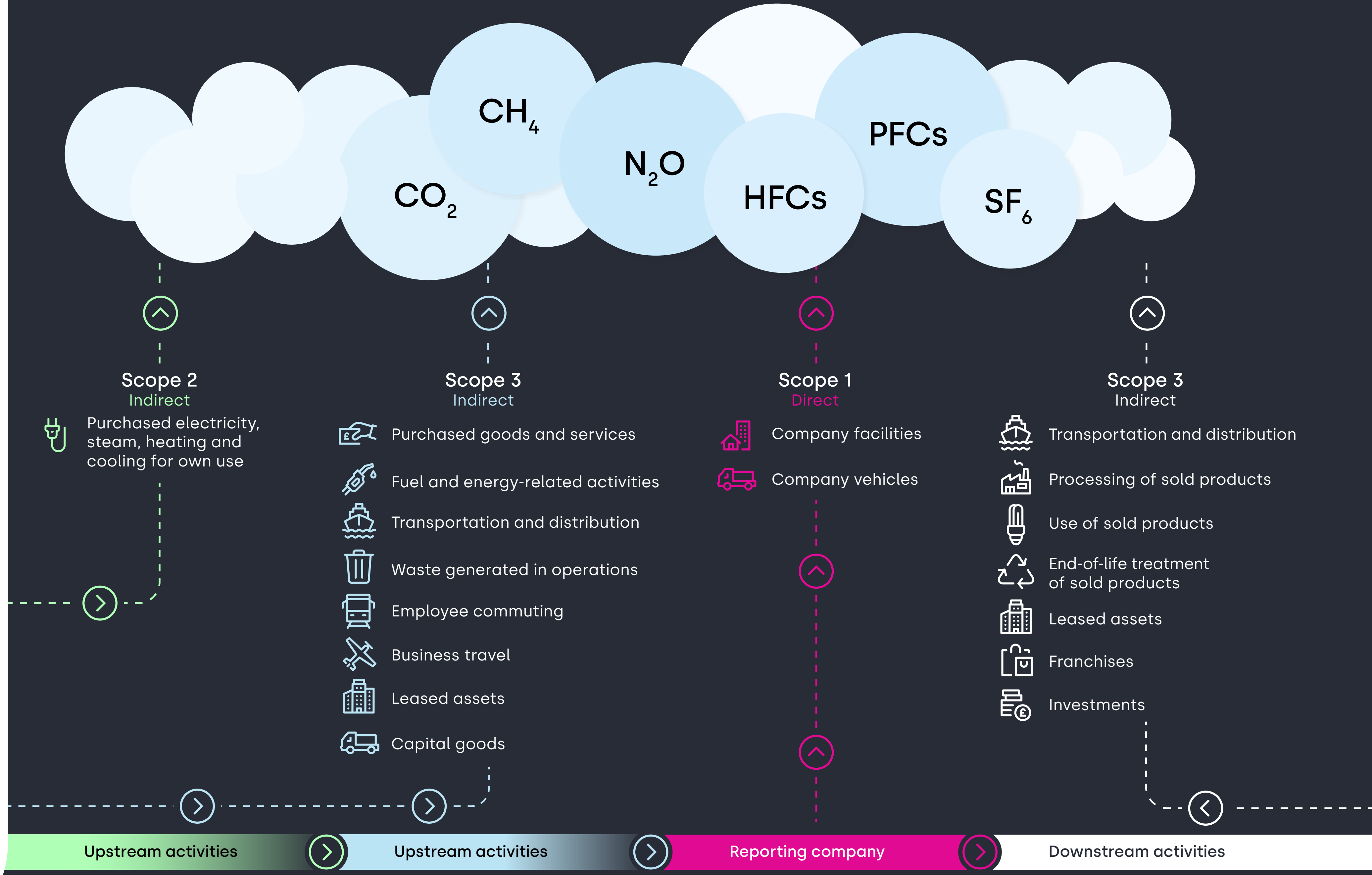
Developing metrics and targets is an essential part of monitoring our impact and progress against our climate ambitions. The Group has agreed metrics and targets to measure our impact across Scopes 1 to 3, in alignment with established standards such as the Partnership for Carbon Accounting Financials (PCAF) and the GHG Protocol. These are used to assess and manage our climate-related risks and opportunities.

In light of progress to date, we have revised several of our initial climate targets that were set during 2022. This includes expanding the scope of our net zero by 2050 target to cover our SME portfolios. In 2023, we undertook an initial internal measurement of our SME portfolios. This remains under development and we plan to provide further disclosure in the future.

Going forward, we will continue to improve our data quality and coverage, in alignment with PCAF and the GHG Protocol.

This section outlines:

- Financed emissions covering Group Property Lending Portfolios
- Energy risk assessment for residential properties
- Flood risk assessment for residential properties
- Sustainable finance originations
- Own operational footprint



Source (as adapted): https://ghgprotocol.org/blog/you-too-can-master-value-chain-emissions

Financed emissions

Our most significant GHG emissions are Scope 3: Category 15 – Investments or financed emissions associated with our lending portfolios. We recognise the need to measure these emissions to inform our reduction actions and achieve net zero by 2050. We are committed to measuring and disclosing financed emissions using the PCAF methodology to ensure consistency and comparability across the financial services sector. We have used the PCAF methodology to calculate our financed emissions for our Property Lending Portfolios, and have a data quality score of 3[1]. We recognise the main limitations of using EPC to measure our emissions[2] and we plan to take mitigating actions to increase data quality over time. For clarity, all asset classes within our Consumer franchise are outside of scope[3] while our SME portfolio measurement is currently under development. We will continue to improve our data quality and increase coverage across our loan book, where proportionate, to assess and manage our carbon-related assets and exposures.

Our ambition is to reach **net zero by 2050**[4].

Property Lending Portfolios

The following table shows how we segment our Property Lending Portfolios in line with PCAF guidance on how to classify buildings, split into residential and commercial properties. This excludes bridging and acquired portfolios[5].

Property Lending Portfolios[6]

Property type classification	Franchise	Operating segment	Asset classes included in scope
Residential Properties	Enterprise	Real Estate	• Buy-to-let (secured against residential property) • Owner-occupied mortgages[7]
	Retail Mortgage Brands	TML & BML	• Buy-to-let (secured against residential property) • Owner-occupied mortgages
Commercial Properties	Enterprise	Real Estate	• Commercial investment (including semi-commercial)[8] lending

1 Defined by PCAF as using estimated building energy consumption per floor area based on official building energy labels and the floor area available.
2 Not all UK dwellings have EPCs, due to outdated assumptions that rely on averages.
3 Due to the short-term nature of the lending and purpose where we do not have influence on how the proceeds are being utilised.
4 This covers own operations (scopes 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios and SME portfolios.
5 The Group's acquired portfolios include certain buy-to-let and commercial investment lending that is in run-off.
6 We use the term Property Lending Portfolios to cover all of the Group's property-related asset classes currently within scope for measurement of our financed emissions, as shown in column 4 of the table labelled 'Property Lending Portfolios' above.
7 This includes second charge mortgages within our back book.
8 Where the commercial element of the property accounts for more than 50% of its value it is classified as a Commercial Investment mortgage.

Measurement of emissions for the Group's Property Lending Portfolios

For our measurement, we sourced building emissions from available EPC data. To improve data quality when measuring our emissions, we adjusted EPC data by accounting for changes in the UK grid decarbonisation and including unregulated emissions such as appliances. We used the PCAF methodology to calculate the Group's Property Lending Portfolios financed emissions baseline and have a data quality score of 3 (defined by PCAF as using "Estimated building energy consumption per floor area based on official building energy labels and the floor area are available").

$$\text{Financed emissions (with b = building)} = \sum \text{Attribution factor}_b \times \text{Building emissions}_b$$

$$\text{Attribution factor}_b \text{ (with b = building)} = \frac{\text{Outstanding amount}_b}{\text{Property value at origination}_b}$$

Type	Absolute emissions (tCO2e)[1]			Emissions intensity (kgCO2e/m2)[2]		
	2023	2022[3]	2021	2023	2022	2021
Residential Properties	75,350	51,478	46,993	42	44	46
Commercial Properties	25,984	20,407	21,598	111	134	133

Our progress

Emissions intensity from our 2021 baseline has continued to reduce for both Residential Properties and Commercial Properties. The main driver has been higher rated EPC properties within our new originations, improving the overall EPC mix for both portfolios.

There was a further reduction in the Residential Properties portfolio emissions intensity between 2022 and 2023 of 2.7% and emissions have reduced by 8.5% from our 2021 baseline. However, the underlying emissions intensity would have reduced to 41.7 kgCO2e/m2 if we had utilised the 2022 emissions factors. This suggests that in 2023 the UK generated more carbon intensive energy compared to 2022.

The Commercial Properties portfolio emissions intensity continued to reduce in 2023 compared to 2022 and 2021.

1 Total GHG emissions associated with the Property Lending Portfolios.
2 To understand the efficiency of the Property Lending Portfolios in terms of emissions per unit, which allows for portfolio growth.
3 The Group's 2022 figures have been restated as a result of changes in methodology and improvements in data quality resulting in more accurate information.

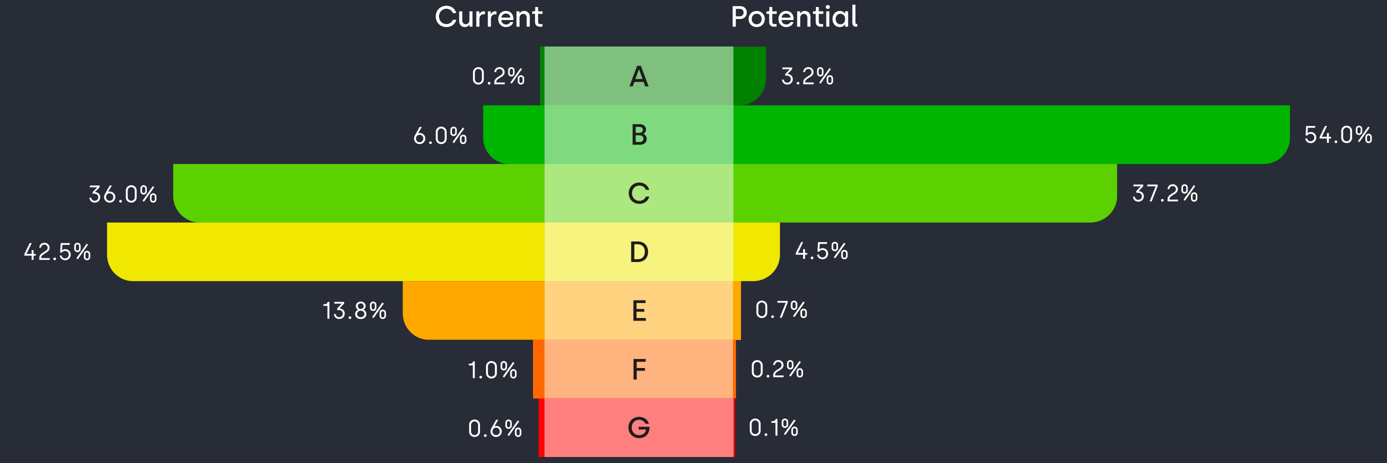
Energy risk assessment

Exposure to buy-to-let and owner-occupied[1] portfolios

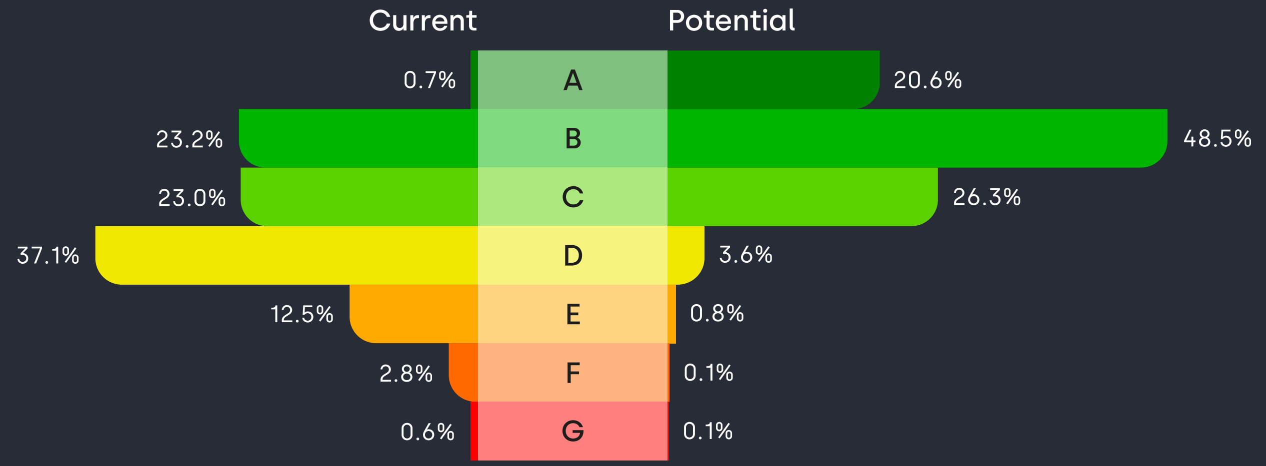
We are committed to supporting customers with their transition to a low carbon economy. Lending on property is a core part of our strategy and supporting our professional property investors and owner-occupied mortgage customers in their transition is a key part of our climate strategy. Our energy risk assessment has been targeted on the buy-to-let and owner-occupied portfolios where we have been able to identify an exact match for the property location. We do not have a material aged back book so the coverage of EPC ratings in our back book is consistent with the broader market. The potential EPC ratings demonstrate the opportunities available to the Group in supporting the financing the transition to a low carbon economy. EPC coverage of buy-to-let mortgages is 65% (December 2022: 62%) and owner-occupied mortgages is 82% (December 2022: 80%).

See charts for our current and potential EPC exposure for ourbuy-to-let and owner-occupied mortgages.

Exposure to buy-to-let mortgages by EPC



Exposure to owner-occupied by EPC



1 This includes second charge mortgages within our back book.

Flood risk assessment

Exposure to buy-to-let and owner-occupied[1] portfolios

Our flood risk assessment has been targeted on the buy-to-let and owner-occupied portfolios across the UK using location-specific data. We have partnered with CLSQ and D-Risk to measure flood hazards considering surface water, coastal and river events. The model has been applied at property level where potential flood damage is dependent upon the potential type, frequency and depth of flooding. Properties with a flood rating defined as high risk or very high risk may have their insurance risk ceded to the Flood Re scheme which is expected to close in 2039 at which point the property insurance premiums would no longer be capped and would be subject to market forces. The ratings considered in this analysis are based on the level of risk in November 2023 and are based on current defences. We will leverage this data to understand the risk under the CBES scenarios as part of our evolving analysis of flood risk.

The maps in this section represent the proportion of our buy-to-let and owner-occupied mortgages that are at high risk and very high risk of flooding by value in specific regions of the UK.

Flood risk assessment – exposure to buy-to-let mortgages

Band	High risk	Very high risk	Total
East Anglia	1.6%	1.0%	3.2%
East Midlands	1.4%	1.1%	6.2%
Greater London	0.7%	1.1%	32.0%
North East	0.2%	0.4%	2.7%
North West	0.5%	0.9%	11.0%
Scotland	0.7%	0.8%	6.7%
South East	0.5%	1.9%	18.1%
South West	0.3%	2.4%	6.3%
Wales	2.7%	2.1%	2.3%
West Midlands	0.6%	1.2%	5.8%
Yorkshire/ Humberside	1.7%	2.6%	5.4%

Flood risk assessment – exposure to owner-occupied mortgages[1]

Band	High risk	Very high risk	Total
East Anglia	1.0%	1.6%	4.4%
East Midlands	0.4%	0.9%	7.1%
Greater London	1.3%	2.5%	13.9%
North East	0.3%	0.2%	3.6%
North West	0.9%	1.1%	11.8%
Northern Ireland	0.0%	0.0%	0.1%
Scotland	0.5%	1.4%	7.5%
South East	0.4%	1.0%	24.2%
South West	1.0%	1.7%	7.2%
Wales	1.7%	2.3%	4.0%
West Midlands	0.3%	1.0%	8.1%
Yorkshire/ Humberside	1.3%	2.5%	8.1%

1 This includes second charge mortgages within our back book.

Sustainable finance originations

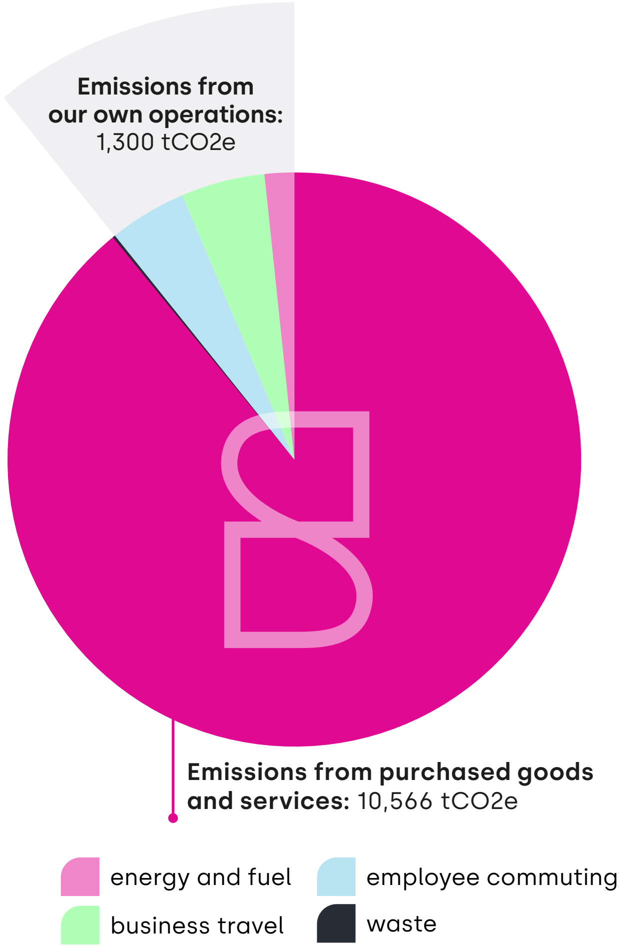
As part of our commitment to support customers' in their transition to net zero, we provided £475 million of sustainable finance during 2023. This is based on the environmental criteria of our Sustainable Finance Framework.

Sustainable finance	Year ended 31 December 2023
Lending to properties with EPC A or B[1]	£353 million
Other lending within the scope of the Group's Sustainable Finance environmental criteria[2]	£122 million

Own operational footprint

We utilise a climate management and accounting platform to measure the GHG emissions associated with our operational carbon footprint[3]. We use the GHG Protocol to measure our emissions across Scopes 1, 2 and 3 (all relevant categories 1 – 14), with Scope 3 Category 15 financed emissions covered on pages 175. Our 2023 total operational carbon footprint was calculated to be 11,865 tonnes of carbon dioxide equivalent (tCO2e). Please see our SECR report on page 28 for a breakdown of emissions per scope.

We also purchased high-quality verified carbon credits to neutralise 1,300 tCO2e emissions attributable to our own operations, maintaining carbon neutrality[4], as we progress towards achieving net zero through our emissions reduction actions.



We have committed to provide **£1.2 billion sustainable finance originations** between 1 January 2023 and 31 December 2025.

Our ambition is to reach **net zero by 2035** for our own operations[5] and maintain carbon neutrality in the meantime.

Purchased goods and services

We recognise that our climate impact extends to our suppliers, with purchased goods and services accounting for the majority of our operational carbon footprint. We have expanded the scope of our net zero aligned suppliers target to ensure that it is dynamic and aligns to our overall net zero goals as a growing business.

During 2023, we started engagement with suppliers to understand their approach on climate and their plans to reduce their emissions. As at 31 December 2023, 53% of our supplier spend is net zero aligned, as sourced from supplier disclosures through our procurement system or public sustainability reports. Our ambition is to improve on our current progress through continued engagement into 2024.

We are committed to ensuring at least half of our suppliers, with annual spend of over £200,000, are net zero aligned by 31 December 2025[6].

1 This includes Residential Properties and Commercial Properties.
2 This includes development finance loans to properties being built to EPC A and B standards, electric and hybrid taxis, and a loan to a water and waste management company.
3 To calculate our carbon emissions, we follow the GHG Protocol framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions from owned or controlled sources. Scope 2 represents the indirect emissions from the generation of purchased electricity. Scope 3 represents other indirect emissions across our value chain, including upstream and downstream emissions.
4 Through the purchase of carbon credits certified under the Gold or VCS Standard programmes, two of the most widely accepted international certification systems.
5 This covers Scope 1, Scope 2 and Scope 3 (fuel and energy-related activities, waste, business travel, commuting and work from home) emissions. This excludes purchased goods and services and financed emissions.
6 This means suppliers either having a net zero target for their own operations or utilising the Science Based Targets initiative (SBTi) approach for net zero by 2050.

Financial Statements

Independent Auditor's Report

to the members of Shawbrook Group plc

1. Our opinion is unmodified

We have audited the financial statements of Shawbrook Group Plc (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 December 2023 which comprise the Consolidated statement of profit and loss, Consolidated statement of comprehensive income, Consolidated and Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated and Company statement of cash flows, and the related notes, including the accounting policies in note 7.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006;
- and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the directors in June 2011. The period of total uninterrupted engagement is for the thirteen financial years ended 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£13.5 million (2022: £ 10.1 million) 4.7% of Group profit before tax (2022: 4.3% of Group profit before tax)	
Coverage	100% (2022: 100%) of Group profit before tax	
Key audit matters		**vs 2022**
Recurring risks	Expected Credit losses on loans and advances to customers	↔
	Measurement of loans and advances to customers at Fair value through other comprehensive income	↔
	NEW: Conduct provision - Timeshare	↑
	IT user access management	↔
	Recoverability of parent Company's investment in Subsidiaries	↔

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

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

Independent Auditor's Report

to the members of Shawbrook Group plc

Key Audit Matter

Expected credit losses on loans and advances to customers

Risk vs 2022: ↔

£130.2 million; 2022: £111.8 million

Refer to page 67 (Audit Committee Report), page 106 - 131 (Risk Report), page 205 - 206 (accounting policy) and pages 217, 219 - 221 (financial disclosures).

The risk

Subjective estimate

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

- **Model estimations** – Inherently judgemental modelling is used to estimate ECL, particularly in determining the Probability of Default ("PD") in certain portfolios. These models utilise both the Group's historical data and external data inputs.
- **Economic scenarios** – IFRS 9 requires the Group to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used, particularly in the current economic environment, and the probability weightings applied to them.
- **Post-model adjustments** – Adjustments to the model-driven ECL results are made by management to address known impairment model limitations or emerging trends. Such adjustments are inherently subjective and significant judgement is involved in estimating these amounts.
- **Significant Increase in Credit Risk ("SICR")** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12-month or a lifetime provision is recorded. We have specifically identified an increased risk associated with the judgement relating to the effectiveness of SICR criteria where customers or portfolios are impacted by the current macroeconomic pressures.

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

Disclosure quality

The disclosures regarding the Group's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL results, as well as sensitivity of the ECL results.

Our response

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

Our credit risk modelling expertise: We engaged with our own credit risk modelling specialists which assisted us in the following for a selection of models:

- for those models which were changed or updated during the year, evaluated whether the changes were appropriate by assessing the updated model methodology;
- independently evaluated the model output by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code and comparing our independent output with management's output;
- independently assessed and reperformed the updated model calibrations and model redevelopments; and
- independently applied management's staging methodology and inspected model code for the calculation of the ECL to assess its consistency of the Group's approved staging criteria and the output of the model;

Our economics expertise: We engaged our own economic specialists who assisted us in:

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

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

- critically evaluating management's assumptions which are applied to determine the basis of post model adjustments;
- assessing the completeness of post model adjustments identified;
- reperforming the calculation of the qualitative adjustments to assess consistency with the qualitative adjustment methodologies; and
- evaluating the completeness of SICR criteria in capturing new risks due to changes in the economic environment.

Assessing transparency: We assessed whether the disclosures appropriately reflect and describe the uncertainty which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear.

Our results: We found the resulting estimate of the ECL recognised and the associated disclosures made to be acceptable (2022: acceptable).

Independent Auditor's Report

to the members of Shawbrook Group plc

Key Audit Matter

Measurement of loans and advances to customers at fair value through other comprehensive income

Risk vs 2022: ↔

£2,815.3 million; 2022: £1,269.8 million

Refer to page 67 (Audit Committee Report), page 203-205 (accounting policy) and page 219-221 (financial disclosures).

The risk	Our response
Subjective estimate During 2022, the Group introduced a new business model 'held to collect and sell'. The loans to customers originated under this business model are classified in accordance with IFRS 9 as measured at fair value through other comprehensive income. The fair value model uses unobservable inputs and as such the loans are classified as level 3 in the fair value hierarchy under IFRS 13. For fair value measurement, there is subjectivity in pricing the significant unobservable inputs. Where significant pricing inputs are unobservable, management has limited reliable, relevant market data available in determining the fair value, and hence estimation uncertainty can also be high which leads to a significant risk of fraud and error. We determined that the discount factor has a high degree of estimation uncertainty, with a potential range of reasonable outcomes on the fair valuation of loans and advances to customers greater than our materiality for the financial statements as a whole, and possibly many times that amount. As a result, a significant audit risk was identified in respect of the risk-adjusted discount rate. **Disclosure quality** The disclosures regarding the application of IFRS 13 are key to explaining the key judgements and material inputs to the fair value estimate, including model sensitivities estimated by the Group.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Methodology choice:** We assessed the appropriateness of the methodology used to value the loans, including suitability of the model and key assumptions used around the risk-adjusted discount rate. **Our valuation expertise:** We engaged our internal valuation specialists to reprice the fair value portfolio using an independent risk-adjusted discount factor developed based on the risk characteristics of each product and data on similar instruments in the market. **Sensitivity analysis:** Our valuation specialists also performed sensitivity analysis over the key assumptions such as the risk-adjusted discount factor. **Test of details:** We performed tests of details over the completeness and accuracy of the data that feeds into the model primarily by tracing the relevant data elements to the original source documentation. **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation including sensitivity analysis and fair value hierarchy disclosure. **Our results** We have found the resulting measurement of the loans and advances to customers at fair value through other comprehensive income, including unobservable inputs and associated disclosures made to be acceptable (2022: acceptable).

Independent Auditor's Report

to the members of Shawbrook Group plc

Key Audit Matter

Conduct provisions – Timeshare

Risk vs 2022: ↑

£11.4 million; 2022 £nil

Refer to page 67 (Audit Committee Report), page 146 (Risk Report), page 207 (accounting policy) and pages 236 (financial disclosures).

The risk	Our response
Subjective estimate Due to the uncertainties that can arise in measuring potential obligations resulting from operational, legal and regulatory matters, the Directors apply judgement in estimating the value of any associated provisions or contingent liability. In the current period, the Directors have recognised a provision for complaints from customers relating to historic fractional timeshare holiday ownership products. The key elements of estimation uncertainty are the future customer complaints rate, the uphold rate of complaints received and the estimated redress cost per upheld complaint. Given the limited historical information, there is a risk that the actual experience may differ from the Group's expectation. The effect of these matters is that, as part of our risk assessment, we determined that the provision related to timeshare conduct matters has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** The disclosures relating to the provision for conduct matters are important in explaining the Group's key judgements and material inputs to the subjective estimate.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Methodology choice:** We assessed the methodology used by the Group to calculate the provision and evaluate the key accounting judgements made. **Test of details:** Our test of details included evaluating management's assumptions used in the model, testing the existence and accuracy of key data inputs by tracing them to underlying source documentation, reperforming model calculations, inspecting regulatory correspondence and making enquiries with management, including legal counsel and involving our legal specialists as necessary. **Sensitivity analysis:** We assessed and challenged the reasonableness of the provisioning model's key assumptions, to critically assess the impact of alternative assumptions and the range of reasonably possible outcomes. **Assessing transparency:** We evaluated the adequacy of Group's disclosure in respect of the estimation uncertainty associated with the timeshare provision, including the sensitivity disclosures appropriately reflect uncertainty inherent in the assessment of the provision as well as reasonably plausible changes in key assumptions that could lead to an alternative provision. **Results:** We have found the resulting estimate of the conduct provision recognised to be acceptable (2022: not applicable).

Independent Auditor's Report

to the members of Shawbrook Group plc

Key Audit Matter	
IT user access management Risk vs 2022: ↔ Refer to page 99 (Risk Report).	
The risk	**Our response**
Control performance The Group's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access management controls are an important component of the general IT control environment assuring that unauthorised access to systems does not impact the effective operation of the automated controls in the financial reporting processes. Key user access management controls include privileged access management and the timely removal of user access. There is a risk that user access management controls are not consistently implemented and effectively operated across the Group, including controls operated by third party service providers. If these user access management controls are deficient and not remediated or adequately mitigated, the pervasive nature of these deficiencies may undermine our ability to place reliance on automated controls in our audit.	Our audit procedures included: **Control testing:** We tested the design, implementation and operating effectiveness of the relevant controls over user access management including: • Authorising access rights for new access provision; • Authorising modified access; • Timely removal of user access rights; • Privileged user and developer access to production systems, the procedures to assess granting, potential use, and the removal of these access rights; and • Segregation of duties including access to multiple systems that could circumvent segregation controls. **Test of details:** For certain account balances we responded to the deficient general IT controls by performing additional substantive testing. For instance, we increased sample testing over certain account balances. We also compared selected data to external sources (such as third-party contracts and / or bank statements), to test the integrity of the transactional level data that is flowing into and contained within the Group's financial statements. **Our Results:** Based on our testing and the additional procedures performed in response to the IT deficiencies identified, we concluded that none of the IT deficiencies impacted the effective operation of automated controls that we placed reliance on in our audit (2022: None identified).

Key Audit Matter	
Recoverability of parent Company's investment in subsidiary Risk vs 2022: ↔ (£431.8 million; 2022: £416.8 million) Refer to page 202 (accounting policy) and 234-235 (financial disclosures).	
The risk	**Our response**
Low risk, high value The carrying amount of the parent Company's investment in its subsidiary represents 70% (31 Dec 2022: 81%) of the Company's total assets. The investment's recoverability is not at a high risk of significant misstatement or subject to significant judgement or estimation uncertainty. However, due to the materiality in the context of the parent Company's financial statements, this is considered to be the area that has the greatest effect on our overall parent Company audit.	We performed the following audit procedure rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described below. **Tests of detail:** We compared the carrying amount of 100% of investments with the relevant subsidiary's financial statements to identify whether its net assets, being an approximation of its minimum recoverable amount, were in excess of its carrying amount and assessing whether the subsidiary has historically been profit-making. **Our results:** We found the Parent Company's assessment of the recoverability of the investment in Shawbrook Bank Limited to be acceptable (2022: acceptable).

Independent Auditor's Report

to the members of Shawbrook Group plc

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

Materiality for the Group financial statements as a whole was set at £ 13.5 million (2022: £10.1 million), determined with reference to a benchmark of Group's profit before tax of £286.7 million (2022: £233.0 million).

Materiality for the parent Company financial statements as a whole was set at £4.3 million (2022: £4.2 million), determined with reference to a benchmark of total assets, of which it represents 0.7% (2022: 0.8%)

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

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £8.7 million (2022: £6.5 million) for the Group and £ 2.8 million (2022: £ 2.7 million) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £ 0.65 million (2022: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

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

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period'). We used our knowledge of the Group and Company, its industry and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The availability of funding and liquidity in the event of a market-wide stress scenario; and
- Insufficient regulatory capital to meet minimum regulatory capital levels.

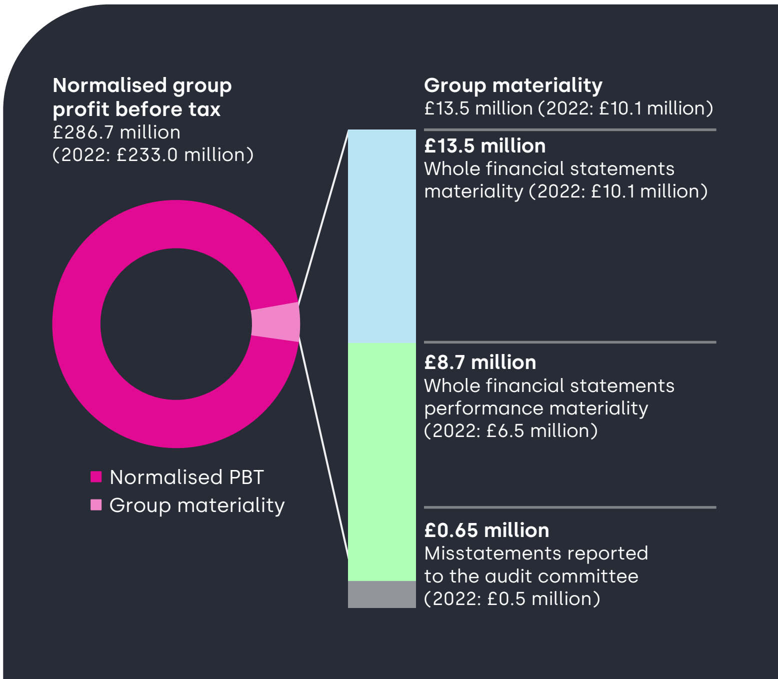
We considered whether these risks could plausibly affect regulatory capital and liquidity in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by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

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

Our conclusions based on this work:

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

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



Independent Auditor's Report

to the members of Shawbrook Group plc

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, internal audit, executive management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, audit committee and risk committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and directors; and
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as expected credit losses on loans and advances to customers, measurement of loans and advances to customers at fair value through other comprehensive income and conduct provision – Timeshare.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity and judgement involved in calculation and recognition of revenue.

We also identified a fraud risk related to expected credit losses on loans and advances to customers, measurement of loans and advances at fair value through other comprehensive income and conduct provision – Timeshare due to the fact these involve significant estimation uncertainty and subjective judgements that are difficult to corroborate.

Further detail in respect of expected credit losses on loans and advances to customers, measurement of loans and advances at fair value through other comprehensive income and conduct provision – Timeshare is set out in the key audit matter disclosures in Section 2 of this report as the procedures relating to those estimates and judgements also address the risk of fraud.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries posted by senior finance management, journals posted to seldom used accounts, unbalanced journal postings and those including specific descriptors; and
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

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

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

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

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

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

Independent Auditor's Report

to the members of Shawbrook Group plc

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

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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

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

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

Independent Auditor's Report

to the members of Shawbrook Group plc

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 85, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

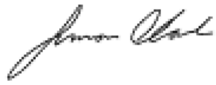
Auditor's responsibilities

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

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

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

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



Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
28 March 2024

Consolidated statement of profit and loss

for the year ended 31 December 2023

	Note	**2023 £m**	2022 £m
Interest income calculated using the effective interest rate method	11	**946.0**	588.1
Other interest and similar income	11	**197.8**	36.2
Interest expense and similar charges	12	**(567.3)**	(164.6)
Net interest income		**576.5**	459.7
Operating lease rental income		**9.6**	10.1
Depreciation on operating leases	26	**(8.2)**	(8.7)
Net other operating lease income		**0.1**	0.3
Net operating lease income		**1.5**	1.7
Fee and commission income	13	**16.9**	14.1
Fee and commission expense	13	**(12.6)**	(8.6)
Net fee and commission income	13	**4.3**	5.5
Net gains on derecognition of financial assets measured at amortised cost	14	**–**	7.7
Net gains/(losses) on derivative financial instruments and hedge accounting	25	**5.1**	(0.8)
Net other operating income/(expense)		**(0.9)**	2.4
Net operating income		**586.5**	476.2
Administrative expenses	15	**(226.6)**	(194.7)
Impairment losses on financial assets	19	**(60.1)**	(47.7)
Provisions	33	**(13.1)**	(0.8)
Total operating expenses		**(299.8)**	(243.2)
Profit before tax		**286.7**	233.0
Tax	20	**(74.6)**	(58.3)
Profit after tax, attributable to owners		**212.1**	174.7

The notes on page 196 to 251 are an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	Note	**2023 £m**	2022 £m
Profit after tax		**212.1**	174.7
Items that may be reclassified subsequently to the statement of profit and loss:			
Cash flow hedging reserve			
Net gains/(losses) from effective portion of changes in fair value	25	**(23.1)**	38.4
Reclassifications to statement of profit and loss	25	**(6.8)**	(2.2)
Related tax	28	**8.0**	(9.8)
Movement in cash flow hedging reserve		**(21.9)**	26.4
Fair value through other comprehensive income reserve			
Net gains/(losses) from changes in fair value		**9.9**	(17.1)
Change in loss allowance	19	**4.3**	2.4
Related tax	28	**(3.8)**	4.0
Movement in fair value through other comprehensive income reserve		**10.4**	(10.7)
Total items that may be reclassified subsequently to the statement of profit and loss		**(11.5)**	15.7
Other comprehensive income/(expense), net of tax		**(11.5)**	15.7
Total comprehensive income, attributable to owners		**200.6**	190.4

The notes on page 196 to 251 are an integral part of these financial statements.

Consolidated and Company statement of financial position

for the year ended 31 December 2023

		Group		Company	
	Note	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Assets					
Cash and balances at central banks	21	**2,188.1**	2,037.1	**–**	–
Loans and advances to banks	21	**480.7**	263.6	**–**	0.1
Loans and advances to customers	22	**13,279.3**	10,457.1	**–**	–
Investment securities	24	**822.1**	691.0	**–**	–
Derivative financial assets	25	**252.7**	330.7	**–**	–
Property, plant and equipment	26	**40.5**	48.3	**–**	–
Intangible assets	27	**107.2**	76.4	**–**	–
Deferred tax assets	28	**35.7**	19.4	**–**	–
Other assets	29	**29.9**	15.1	**–**	0.5
Investment in subsidiaries	30	**–**	–	**431.8**	416.8
Subordinated debt receivable	37	**–**	–	**189.9**	97.4
Total assets		**17,236.2**	13,938.7	**621.7**	514.8
Liabilities					
Amounts due to banks	31	**1,405.0**	1,498.7	**–**	–
Customer deposits	32	**13,562.7**	10,914.5	**–**	–
Provisions	33	**15.9**	6.0	**–**	–
Derivative financial liabilities	25	**184.5**	90.5	**–**	–
Debt securities in issue	34	**462.8**	116.4	**–**	–
Current tax liabilities		**1.4**	3.2	**–**	–
Lease liabilities	35	**6.1**	7.4	**–**	–
Other liabilities	36	**70.6**	65.4	**7.4**	6.9
Subordinated debt liability	37	**188.5**	96.8	**188.5**	96.8
Total liabilities		**15,897.5**	12,798.9	**195.9**	103.7
Equity					
Share capital	39	**2.5**	2.5	**2.5**	2.5
Share premium account		**87.3**	87.3	**87.3**	87.3
Capital securities	40	**123.1**	122.9	**123.1**	122.9
Capital contribution reserve		**19.9**	5.6	**19.9**	5.6
Cash flow hedging reserve		**4.5**	26.4	**–**	–
Fair value through other comprehensive income reserve		**(0.3)**	(10.7)	**–**	–
Retained earnings		**1,101.7**	905.8	**193.0**	192.8
Total equity		**1,338.7**	1,139.8	**425.8**	411.1
Total equity and liabilities		**17,236.2**	13,938.7	**621.7**	514.8

The Company's profit for the year 2023 was £16.4 million (2022: £3.7 million).

The notes on page 196 to 251 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2024 and were signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 07240248

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Share capital £m	Share premium account £m	Capital securities £m	Capital contribution reserve £m	Cash flow hedging reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2023	**2.5**	**87.3**	**122.9**	**5.6**	**26.4**	**(10.7)**	**905.8**	**1,139.8**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**212.1**	**212.1**
Movement in cash flow hedging reserve	**–**	**–**	**–**	**–**	**(21.9)**	**–**	**–**	**(21.9)**
Movement in fair value through other comprehensive income reserve	**–**	**–**	**–**	**–**	**–**	**10.4**	**–**	**10.4**
Total comprehensive income	**–**	**–**	**–**	**–**	**(21.9)**	**10.4**	**212.1**	**200.6**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Coupon paid on capital securities	**–**	**–**	**–**	**–**	**–**	**–**	**(16.9)**	**(16.9)**
Capital contribution	**–**	**–**	**–**	**14.3**	**–**	**–**	**–**	**14.3**
Other movements	**–**	**–**	**0.2**	**–**	**–**	**–**	**–**	**0.2**
As at 31 December 2023	**2.5**	**87.3**	**123.1**	**19.9**	**4.5**	**(0.3)**	**1,101.7**	**1,338.7**

	Share capital £m	Share premium account £m	Capital securities £m	Capital contribution reserve £m	Cash flow hedging reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	2.5	87.3	124.0	5.6	–	–	740.8	960.2
Profit for the year	–	–	–	–	–	–	174.7	174.7
Movement in cash flow hedging reserve	–	–	–	–	26.4	–	–	26.4
Movement in fair value through other comprehensive income reserve	–	–	–	–	–	(10.7)	–	(10.7)
Total comprehensive income	–	–	–	–	26.4	(10.7)	174.7	190.4
Equity-settled share-based payments	–	–	–	–	–	–	0.1	0.1
Issue of capital securities	–	–	121.9	–	–	–	–	121.9
Settlement of capital securities	–	–	(123.0)	–	–	–	(1.0)	(124.0)
Coupon paid on capital securities	–	–	–	–	–	–	(8.8)	(8.8)
As at 31 December 2022	2.5	87.3	122.9	5.6	26.4	(10.7)	905.8	1,139.8

The notes on page 196 to 251 are an integral part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2023

	Share capital £m	Share premium account £m	Capital securities £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2023	**2.5**	**87.3**	**122.9**	**5.6**	**192.8**	**411.1**
Profit for the year	–	–	–	–	**16.4**	**16.4**
Total comprehensive income	–	–	–	–	**16.4**	**16.4**
Equity-settled share-based payments	–	–	–	–	**0.7**	**0.7**
Coupon paid on capital securities	–	–	–	–	**(16.9)**	**(16.9)**
Capital contribution	–	–	–	**14.3**	–	**14.3**
Other movements	–	–	**0.2**	–	–	**0.2**
As at 31 December 2023	**2.5**	**87.3**	**123.1**	**19.9**	**193.0**	**425.8**

	Share capital £m	Share premium account £m	Capital securities £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	2.5	87.3	124.0	5.6	198.8	418.2
Profit for the year	–	–	–	–	3.7	3.7
Total comprehensive income	–	–	–	–	3.7	3.7
Equity-settled share-based payments	–	–	–	–	0.1	0.1
Issue of capital securities	–	–	121.9	–	–	121.9
Settlement of capital securities	–	–	(123.0)	–	(1.0)	(124.0)
Coupon paid on capital securities	–	–	–	–	(8.8)	(8.8)
As at 31 December 2022	2.5	87.3	122.9	5.6	192.8	411.1

The notes on page 196 to 251 are an integral part of these financial statements.

Consolidated and Company statement of cash flows

for the year ended 31 December 2023

	Note	Group		Company	
		2023 £m	2022 £m	**2023 £m**	2022 £m
Cash flows from operating activities					
Profit before tax		**286.7**	233.0	**16.4**	3.7
Adjustments for non-cash items and other adjustments included in the statement of profit and loss	41	**73.5**	61.3	**0.4**	0.1
(Increase)/decrease in operating assets	41	**(2,494.5)**	(2,233.9)	**0.1**	0.7
Increase in operating liabilities	41	**2,738.3**	2,633.0	**0.5**	6.9
Tax (paid)/ recovered		**(88.1)**	(61.9)	**0.4**	(0.4)
Net cash generated from operating activities		**515.9**	631.5	**17.8**	11.0
Cash flows from investing activities					
Purchase of investment securities		**(365.4)**	(204.8)	**–**	–
Disposals and maturities of investment securities		**211.6**	33.5	**–**	–
Purchase of property, plant and equipment		**(0.9)**	(0.5)	**–**	–
Purchase and development of intangible assets		**(14.5)**	(9.4)	**–**	–
Purchase of subordinated debt		**–**	–	**(90.0)**	–
Purchase of subsidiary, net of cash acquired		**(8.8)**	–	**–**	–
Net cash used by investing activities		**(178.0)**	(181.2)	**(90.0)**	–
Cash flows from financing activities					
Increase/(decrease) in amounts due to banks		**(93.7)**	298.0	**–**	–
Issue of debt securities		**200.0**	–	**–**	–
Repurchase and redemption of debt securities		**(170.3)**	(203.4)	**–**	–
Costs arising on issue of debt securities		**(0.2)**	(0.3)	**–**	–
Payment of principal portion of lease liabilities		**(2.3)**	(2.2)	**–**	–
Issue of subordinated debt		**90.0**	–	**90.0**	–
Costs arising on issue of subordinated debt		**(1.0)**	–	**(1.0)**	–
Costs arising on issue of capital securities		**–**	(2.1)	**–**	(2.1)
Coupon paid to holders of capital securities		**(16.9)**	(8.8)	**(16.9)**	(8.8)
Capital contribution		**14.3**	–	**–**	–
Net cash generated from financing activities		**19.9**	81.2	**72.1**	(10.9)
Net increase in cash and cash equivalents		**357.8**	531.5	**(0.1)**	0.1
Cash and cash equivalents as at 1 January	21	**2,271.1**	1,739.6	**0.1**	–
Cash and cash equivalents as at 31 December	21	**2,628.9**	2,271.1	**–**	0.1
Additional information on operational cash flows from interest					
Interest paid		**(416.8)**	**(125.2)**	**(8.1)**	(8.1)
Interest received		**1,106.6**	**574.2**	**8.1**	8.1

The notes on page 196 to 251 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2023

Basis of preparation and accounting policies

Significant one-off transactions

Financial performance

Assets and liabilities

Equity

Other information

Notes to the financial statements

for the year ended 31 December 2023

1. Reporting entity

Shawbrook Group plc (the 'Company') is a public limited company incorporated and domiciled in the UK. The Company is registered in England and Wales (company number 07240248) and the registered office is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE.

The consolidated financial statements comprise the results of the Company and its subsidiaries (together, the 'Group'), including its principal subsidiary, Shawbrook Bank Limited. Details of subsidiary companies included in the Group are provided in Note 43.

The ultimate parent company is Marlin Bidco Limited, as detailed in Note 42.

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

2. Basis of accounting and measurement

Both the consolidated and Company financial statements are prepared in accordance with UK-adopted international accounting standards, as defined by the UK Endorsement Board. New and revised standards and interpretations adopted by the Group during the year are detailed in Note 6. Material accounting policies applied by the Group are detailed in Note 7.

The reporting period for the consolidated and Company financial statements is the 12 months ended 31 December 2023.

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

The financial statements are prepared on a going concern basis (see Note 3) and on a historical cost basis, except for the following material items, which are carried at fair value: derivative financial instruments and certain loan receivables measured at fair value through other comprehensive income (FVOCI).

3. Going concern

The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis, the Directors considered a wide range of information relating to present and future conditions, including the Group's current financial position and future projections of profitability, cash flows and capital resources. The Directors also considered the Group's risk assessment framework and potential impacts that the top and emerging risks identified (see page 94 of the Risk Report) may have on the Group's financial position and longer-term strategy.

The Group continues to have a proven business model, as demonstrated by its continued levels of profitability, and remains well positioned in each of its core markets. The Directors believe the Group is well capitalised and efficiently funded, with appropriate levels of liquidity.

The Directors have reviewed the Group's capital and liquidity plans, which have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). In this reporting period, stress testing considered the impact of a number of severe but plausible scenarios. The stresses included:

- A scenario where the Bank of England base rate is assumed to fall from 5.25% to 2% by the end of 2025. This scenario assumes that UK Real GDP falls 5% and unemployment increases to 8.3%.
- In the property stress scenario, the Group applied the assumption of residential property prices falling by 31% peak to trough before partially recovering to 20% lower in December 2028 than December 2023. Commercial Property Prices fall by 45% peak to trough by 2025 and recovering to 20% below 2023 prices at December 2028. It is worth noting that the largest falling UK property prices has been 20%.
- A scenario where there is a structural change in the economic environment following a disorderly transition to net zero. In this scenario there is a 2% fall in UK GDP, inflation increases to 4.2%, household income falls by 1%, unemployment increases to 8.2% and residential property prices fall by 19%.
- A scenario where the Bank of England base rate increase further to 7% by Q3 2024 before falling to 3% by December 2028 to explore a rates up scenario.

Under all these scenarios, the Group demonstrated that it had the resources to meet its obligations over the forecast period and maintain a surplus over its regulatory requirements for both capital and liquidity following management actions that the Group has demonstrated that it is able to implement.

The ICAAP process includes an assessment of potential operational and conduct risks that it could face over a 12-month period. This was completed through the analysis of the likelihood and impact of a series of severe but plausible scenarios. The analysis considered eleven key risk scenarios and did not highlight any factors which cast doubt on the Group's ability to continue as a going concern.

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

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4. Functional and presentation currency

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

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

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

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

5. Presentation of risk and capital management disclosures

Disclosures required under IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to financial instruments are included within the principal risks section of the Risk Report. Specifically, this includes information about credit risk, liquidity risk and market risk (starting on page 106, page 136 and page 132, respectively). Disclosures required under IAS 1 'Presentation of Financial Statements' concerning the management of capital are also included within the principal risks section of the Risk Report (starting on page 139).

6. New and revised standards and interpretations

Adoption of new and revised standards and interpretations during the current reporting period
During the year ended 31 December 2023, IFRS 17 'Insurance Contracts', along with several amendments to existing accounting standards, came into effect and were adopted by the Group upon endorsement by the UK Endorsement Board. Adopted amendments are:

- Disclosure of Accounting Policies – Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements'.
- Definition of Accounting Estimates - Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 'Income Taxes'.
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12 'Income Taxes'.

With the exception of the 'Disclosure of Accounting Policies' amendment, detailed in the following paragraph, none of these new or revised standards had a significant impact on the Group.

The 'Disclosure of Accounting Policies' amendment means entities are now only required to disclose their material accounting policies, as opposed to their significant accounting policies. The Group has assessed the requirements of the amendments and concluded that the disclosure of certain accounting policies included within the 2022 Annual Report and Accounts would no longer be necessary. Consequently, while the Group continues to apply these policies, the following accounting policy wording has been omitted by adopting the amendments:

- Taxation: income tax/current tax.
- Property, plant, equipment and depreciation.
- Leases: operating leases where the Group acts as a lessor/ finance leases where the Group acts as a lessee.
- Assets and disposal groups held for sale.

This change is reflected accordingly in Note 7.

Future developments
A number of amendments to existing accounting standards have not yet come into effect. The Group has not early adopted any of these amendments. Based on initial assessments, the upcoming amendments to be implemented for the next year would not have a material impact on the Group.

7. Material accounting policies

Except where otherwise indicated, the Group has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Basis of consolidation

Subsidiaries
See disclosures at Note 43

Subsidiaries are entities, including structured entities, that are controlled by the Group. Control is achieved when the Group has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and can use its power over the entity to affect its returns. The Group reassesses whether it controls the entity if facts and circumstances indicate that there are changes to one or more of these three elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Accounting policies are applied consistently across the Group and intragroup transactions and balances are eliminated in full on consolidation.

Business combinations
Business combinations are accounted for using the acquisition method. Consideration transferred and the identifiable assets acquired and liabilities assumed as part of the business combination are generally, with some limited exceptions, recognised at their acquisition date fair values.

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

The cost of acquisition is the aggregate of the fair value of consideration transferred, amount recognised for non-controlling interests and fair value of any previous interest held. If the cost of acquisition exceeds the fair value of identifiable net assets acquired, goodwill is recognised and is treated in accordance with the policies set out in Note 7(m). If the fair value of identifiable net assets acquired exceeds the cost of acquisition (a 'bargain purchase'), a gain is recognised in the statement of profit and loss.

Acquisition-related costs are expensed as incurred and are included in administrative expenses in the statement of profit and loss, except if related to the issue of debt or equity securities, whereby any incremental direct transaction costs are recognised as a deduction from the instrument.

(b) Operating segments

See disclosures at Note 10

Operating segments are identified based on internal reports and components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker for the Group is the Executive Committee. Operating segments may be included as a reportable operating segment even when quantitative thresholds stipulated in IFRS 8 'Operating segments' are not met, if the Group deems that such information is useful to users of the financial statements in understanding the performance of the different markets it operates within.

The Group determines operating segments according to similar economic characteristics and the nature of its products and services. No operating segments are aggregated to form the Group's reportable operating segments.

(c) Interest income and expense

See disclosures at Note 11 and Note 12

Interest on financial instruments measured at amortised cost and fair value through other comprehensive income
For interest-bearing financial instruments measured at amortised cost or FVOCI, interest income and expense is recognised using the effective interest rate (EIR) method, which allocates interest over the expected life of the financial instrument.

In calculating interest under the EIR method, the Group applies its established accounting policy in relation to financial instruments that revert from a fixed to variable rate of interest, whereby the EIR is based on the fixed rate for the fixed period and does not take account of any reversionary interest post the end of the fixed date. The Group monitors actual and expected customer repayment behaviour and periodically adjusts the recognition profile to reflect significant changes.

The EIR is the rate that exactly discounts the estimated future cash flows over the expected life of the financial instrument to the gross carrying amount of a financial asset, or the amortised cost of a financial liability.

When calculating the EIR, future cash flows are estimated by considering all contractual terms of the financial instrument, excluding the loss allowance recognised on financial assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial instrument.

For non-credit impaired financial assets (i.e. a 'Stage 1' or 'Stage 2' asset per page 107 of the Risk Report), interest income is calculated by applying the calculated EIR to the gross carrying amount of the financial asset.

For financial assets that become credit-impaired after initial recognition (i.e. a 'Stage 3' asset per page 107 of the Risk Report), interest income is calculated by applying the calculated EIR to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition (I.e. a 'POCI' asset per page 107 of the Risk Report), interest income is calculated by applying a credit-adjusted EIR to the amortised cost of the financial asset. The calculation of interest income does not revert to the gross basis, even if the credit risk of the asset improves.

For financial liabilities, interest expense is calculated by applying the calculated EIR to the amortised cost of the financial liability.

Interest on derivative financial instruments
For derivative financial instruments forming part of a qualifying hedging relationship, net interest income or expense is recognised based on the underlying hedged items. For derivative financial instruments hedging assets, the net interest income or expense is recognised in interest income. For derivative financial instruments hedging liabilities, the net interest income or expense is recognised in interest expense.

For derivative financial instruments not in a qualifying hedging relationship, interest is presented in accordance with whether it represents interest income or interest expense.

Interest on leases
Interest relating to lease and instalment credit agreements is recognised in a manner that achieves a constant rate of interest on the remaining balance of the receivable/liability.

(d) Fee and commission income and expense

See disclosures at Note 13

Fee and commission income includes amounts from contracts with customers that are not included in the EIR calculation. These amounts are recognised when performance obligations attached to the fee or commission have been satisfied. The income streams included in fee and commission income all have a single performance obligation attached to them. Where income is earned from the provision of a service, such as an account maintenance fee or a non-utilisation fee, the performance obligation is deemed to have been satisfied when the service is delivered. In general, services are provided each month, thus the performance obligation is satisfied and the income recognised on a monthly basis. Where income is earned upon the execution of a significant act, such as fees for executing a payment, the performance obligation is deemed to have been satisfied and the income recognised when the act is completed.

Incremental costs incurred to generate fee and commission income are charged to fee and commission expense as they are incurred.

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

(e) Administrative expenses

See disclosures at Note 15

Administrative expenses are recognised on an accruals basis. Accounting policies for expenses relating to intangible assets are set out in Note 7(m). Accounting policies for payroll related costs, are set out below:

Salaries and social security costs are recognised over the period the employees provide the services to which the payments relate.

Cash bonus awards are recognised to the extent that there is a present obligation to employees that can be reliably measured and are recognised over the period the employees are required to provide services.

For long-term incentive plans, benefits are recognised at the present value of the obligation at the reporting date, reflecting the best estimate of the effect of the associated performance conditions. Costs are recognised over the period until which all vesting conditions are considered to have been reasonably achieved, which takes into account the period the employees are required to provide services.

For defined contribution pension arrangements, the Group pays fixed contributions into employees' personal pension plans, with no further payment obligations once the contributions have been paid. The Group's contributions to such arrangements are recognised as an expense when they fall due.

For equity-settled share-based payments, the grant date fair value of the share-based payment transaction is recognised as an expense, with a corresponding increase in retained earnings in equity, on a straight-line basis over the period the employees become unconditionally entitled to the awards (the 'vesting period').

The grant date fair value is estimated using a generally accepted valuation method. Where there are market conditions or non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the vesting period is dependent on achieving a non-market performance condition, the length of the expected vesting period at grant date is estimated based on the most likely outcome. Subsequently, the estimated vesting period is revised until the actual outcome is known.

The amount recognised as an expense is adjusted to reflect the number of awards for which the non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that will eventually vest.

For cash-settled share-based payments, the fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in other liabilities, over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes recognised as an expense.

In the Company's financial statements, the equity-settled share-based payment transaction is recognised as an increase in its investment in subsidiaries, with a corresponding increase in retained earnings in equity.

(f) Tax

See disclosures at Note 20 and Note 28

Tax comprises current tax and deferred tax. Tax is generally recognised in the statement of profit and loss, except where it relates to items recognised directly in equity, in which case the tax is also recognised in equity. An exception to this is distributions to holders of capital securities, whereby the distribution is recognised directly in equity, but the tax relief is recognised in the statement of profit and loss, to align with where the transactions and events that generated the distributable profits are recognised.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The measurement of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

(g) Cash and cash equivalents

See disclosures at Note 21

Cash and cash equivalents is the aggregate of cash and balances at central banks (less mandatory deposits with central banks), loans and advances to banks and short-term highly liquid debt securities with less than three months to maturity from the date of acquisition.

All components of cash and cash equivalents are classified as financial assets measured at amortised cost (see Note 7(t)).

Loans and advances to banks include cash collateral paid under terms that are usual and customary for such activities.

(h) Loans and advances to customers

See disclosures at Note 22

Loans and advances to customers include loan receivables, finance lease receivables and instalment credit receivables.

Loan receivables are financial assets measured at either amortised cost or FVOCI (see Note 7(t)).

Finance lease receivables and instalment credit receivables are accounted for as detailed in Note 7(r). For presentational purposes, they are included within loans and advances to customers at amortised cost.

Notes to the financial statements

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7. Material accounting policies (continued)

Certain assets included in loans and advances to customers are pledged as collateral under terms that are usual and customary for such activities, whilst others have been transferred to structured entities as part of securitisation transactions. These assets do not meet the derecognition criteria outlined in Note 7(t) and therefore continue to be recognised in their entirety in the statement of financial position.

Certain loans are designated as the hedged item in hedge relationships. The total carrying amount of loans and advances to customers includes the cumulative fair value adjustment to the carrying amount of the hedged item in relation to fair value hedges (see Note 7(l)).

(i) Securitisation transactions

See disclosures at Note 23 and Note 34

Certain loans included within loans and advances to customers are securitised, by transferring the beneficial interest in the loans to a bankruptcy remote structured entity. A structured entity is an entity designed so that its activities are not governed by way of voting rights.

An assessment is performed to determine whether the Group controls such structured entities, in accordance with the criteria set out in Note 7(a). In performing this assessment, factors considered include: the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity. Where the Group is assessed to control the structured entity, it is treated as a subsidiary and is fully consolidated.

A further assessment is performed to determine whether the securitised loans meet the derecognition criteria outlined in Note 7(t). If the derecognition criteria are met, the transferred loans are treated as sales, referred to as 'structured asset sales' and a gain or loss on derecognition is recognised in the statement of profit and loss. If the derecognition criteria are not met, the transfer of loans is not treated as a sale and the loans continue to be recognised in their entirety in the statement of financial position.

Securitisations involve the simultaneous issue of debt securities by the associated structured entity to investors. In securitisation transactions where the structured entity is consolidated, the issued debt securities are classified on initial recognition as financial liabilities, as the substance of the contractual arrangements are such that there is an obligation to deliver the cash flows generated from the underlying securitised loans to the debt security holder.

These financial liabilities are measured at amortised cost (see Note 7(t)) and are presented in debt securities in issue in the statement of financial position.

Certain debt securities issued by structured entities are retained by the Group. Where retained debt securities are issued by consolidated structured entities, they are eliminated in full on consolidation. Where retained debt securities are issued by unconsolidated structured entities, they are recognised in investment securities in the statement of financial position.

(j) Investment securities

See disclosures at Note 24

Investment securities are classified as financial assets measured at amortised cost (see Note 7(t)).

Certain investment securities are pledged as collateral under terms that are usual and customary for such activities. These assets do not meet the derecognition criteria outlined in Note 7(t) and therefore continue to be recognised in their entirety in the statement of financial position.

Investment securities may be sold subject to a commitment to repurchase them at a predetermined price (a 'repurchase agreement'). The terms of these transactions are such that the derecognition criteria outlined in Note 7(t) are not met and, accordingly, the sold assets continue to be recognised in their entirety in the statement of financial position.

Consideration received as part of repurchase agreements is recognised as a liability in amounts due to banks in the statement of financial position, reflecting that there is an obligation to repurchase the assets for a fixed price at a future date. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreement using the EIR method.

Investment securities may also be swapped via linked repurchase and reverse repurchase agreements with the same counterparty (a 'security swap'). In such transactions, no cash consideration is exchanged, the transferred assets are not derecognised and there is no associated liability as the non-cash collateral received is not recognised in the statement of financial position (i.e. the transaction is off-balance sheet). Net fees are treated as interest and are accrued over the life of the agreement using the EIR method.

(k) Derivative financial instruments

See disclosures at Note 25

Derivative financial instruments are classified as FVTPL (see Note 7(t)). Derivatives are classified as financial assets when their fair value is positive and financial liabilities when their fair value is negative. Where there is the legal right and intention to settle net, the derivative is classified as a net asset or net liability, as appropriate.

To calculate fair values, discounted cash flow models using yield curves that are based on observable market data are typically used. For collateralised positions, discount curves based on overnight indexed swap rates are used. For non-collateralised positions, discount curves based on Sterling Overnight Index Average rate (SONIA) are used.

For measuring derivatives that might change the classification from being an asset to a liability or vice versa, fair values do not take into consideration the credit valuation adjustment, debit valuation adjustment or the funding valuation adjustment because the impact on any uncollateralised position is deemed to be immaterial.

Where derivatives are not designated as part of an accounting hedge relationship, gains and losses arising from changes in the clean fair value are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Where derivatives are designated within an accounting hedge relationship, the treatment of the changes in fair value are as described in Note 7(l).

The Group enters into master netting and margining agreements with derivative counterparties.

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7. Material accounting policies (continued)

In general, under such master netting agreements, the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding under the agreement are aggregated into a single net amount payable by one party to the other.

In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount payable by one party to the other and the agreements terminated.

Under margining agreements, where there is a net asset position valued at current market values in respect of derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group to cover the position. Similarly, where there is a net liability position, the Group will place collateral, usually cash, with the counterparty.

(l) Hedge accounting

See disclosures at Note 25

The Group has elected, as an accounting policy choice permitted under IFRS 9 'Financial Instruments', to continue to apply the hedge accounting rules set out in IAS 39 'Financial Instruments – Recognition and measurement'. However, additional hedge accounting disclosures introduced by IFRS 9's consequential amendments to IFRS 7 are provided.

Hedge accounting is permitted when documentation, eligibility and testing criteria are met. Accordingly, at the inception of a hedge relationship, the Group formally designates and documents the hedge relationship that it wishes to apply hedge accounting to and the risk management objective and strategy for undertaking the hedge. The method to be used to assess the effectiveness of the hedge relationship is also documented.

At inception, and on a monthly basis thereafter, an assessment is performed to determine whether the hedging instrument is highly effective in offsetting changes in the fair value or cash flows of the hedged item. For this assessment, the dollar-offset method is used, except for trades designated in dynamic hedge accounting relationships, whereby the regression method is used. The hedge is deemed to be highly effective where the actual results of the hedge are within a range of 80-125%. If it is concluded that the hedge is no longer highly effective, hedge accounting is discontinued.

The Group's hedging strategy incorporates the use of both fair value hedges and cash flow hedges, as detailed below:

Fair value hedges

Certain derivatives are designated as hedging instruments to hedge interest rate risk. The hedged items are portfolios of loans and advances to customers or customer deposits that are identified as part of the risk management process.

The portfolios comprise either fixed rate loans, or fixed rate deposits, in respect of the designated benchmark interest rate (e.g. SONIA). Each portfolio is grouped into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. The hedging instruments are designated to those repricing time periods.

Changes in the fair value of the derivatives designated as hedging instruments, together with changes in the fair value f the hedged item attributable to the hedged risk, are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Movement in the fair value of the hedged item is recognised as an adjustment to the carrying amount of the hedged asset or liability.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. The cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the statement of profit and loss over the remaining period to maturity.

If the hedged item is derecognised, the cumulative fair value adjustment to the carrying amount of the hedged item is recognised immediately in the statement of profit and loss.

Cash flow hedges

Certain derivatives are designated as hedging instruments to hedge variability in cash flows attributable to interest rate risk. The hedged cash flows may be highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives designated as hedging instruments is recognised in other comprehensive income and is presented in the cash flow hedging reserve in the statement of financial position. The ineffective portion is recognised immediately in the statement of profit and loss in net gains/(losses) on derivative financial instruments and hedge accounting. The carrying amount of the hedged item is not adjusted.

Amounts accumulated in the cash flow hedging reserve are reclassified to the statement of profit and loss in the periods in which the hedged cash flows affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in the cash flow hedging reserve and is subsequently reclassified to the statement of profit and loss when the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, any cumulative gain or loss included in the cash flow hedging reserve is immediately reclassified to the statement of profit and loss. When reclassifying amounts to the statement of profit and loss they are recognised in net gains/(losses) on derivative financial instruments and hedge accounting.

(m) Intangible assets and amortisation

See disclosures at Note 27

Goodwill

Goodwill may arise on the acquisition of subsidiaries and represents the excess of the cost of acquisition over the fair value of identifiable net assets acquired. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that impairment may exist. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the carrying amount of a CGU exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

Other intangible assets
Other intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. For externally acquired intangible assets, cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use. For internally developed intangible assets, cost includes all costs directly attributable in preparing the asset so that it is capable of operating in its intended manner.

For internally developed intangible assets costs may only be capitalised when it can be demonstrated that: the expenditure can be reliably measured; the product or process is technically and commercially feasible; future economic benefits are probable; and there is the intention and ability to complete development and subsequently use or sell the asset. Until the point that all conditions are regarded as met, costs are recognised in administrative expenses in the statement of profit and loss as incurred.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is recognised in administrative expenses in the statement of profit and loss as incurred.

Amortisation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over its estimated useful life and is charged to administrative expenses in the statement of profit and loss. The estimated useful life is three to seven years. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss included in administrative expenses in the statement of profit and loss.

(n) Investment in subsidiaries

See disclosures at Note 30

The Company's investments in controlled entities are valued at cost less any accumulated impairment losses.

Investments are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the statement of profit and loss.

(o) Amounts due to banks

See disclosures at Note 31

Amounts due to banks are classified as financial liabilities measured at amortised cost (see Note 7(t)).

Amounts due to banks may include liabilities recognised as part of repurchase agreements (see Note 7(j)) and cash collateral received under terms that are usual and customary for such activities.

(p) Customer deposits

See disclosures at Note 32

Customer deposits are classified as financial liabilities measured at amortised cost (see Note 7(t)).

Certain deposits are designated as the hedged item in hedge relationships. The total carrying amount of customer deposits includes the cumulative fair value adjustment to the carrying amount of the hedged item in relation to fair value hedges (see Note 7(l)).

(q) Provisions

See disclosures at Note 33

Provisions are recognised when there is a present obligation arising as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions for levies are recognised when the conditions that trigger the payment of the levy are met.

When it is expected that some or all of a provision will be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit and loss net of any reimbursement.

Provisions also include the loss allowance recognised on loan commitments (see Note 7(u)).

(r) Leases

See disclosures at Note 35

Group as a lessor: finance leases
Lease and instalment credit agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are treated as finance leases.

A receivable equal to the net investment in the lease is recognised in loans and advances to customers in the statement of financial position. This amount represents the future lease payments less profit and costs allocated to future periods. The receivable is subject to impairment, as detailed in Note 7(u).

Lease payments are apportioned between interest income in the statement of profit and loss and a reduction of the receivable in order to achieve a constant rate of interest on the remaining balance of the receivable.

(s) Subordinated debt

See disclosures at Note 37

Subordinated debt liabilities are classified as financial liabilities measured at amortised cost (see Note 7(t)).

Subordinated debt receivables in the Company are classified as financial assets measured at amortised cost (see Note 7(t)).

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

(t) Financial assets and financial liabilities

See disclosures at Note 38

Recognition of financial assets and financial liabilities
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date.

Classification and measurement of financial assets
To classify financial assets, two assessments are performed:

- **The 'business model assessment':** this assessment determines whether the Group's objective is to generate cash flows from collecting contractual cash flows ('hold-to-collect'), by both collecting contractual cash flows and selling financial assets ('hold-to-collect-and-sell') or neither. The assessment is performed at a portfolio level and is based on expected scenarios. In making this assessment, information considered includes: sales in prior periods, expected sales in future periods and the reasons for such sales. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining financial assets in that portfolio is not changed, but such information is used when assessing new financial assets going forward.
- **The 'SPPI test':** this assessment determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (i.e. whether the contractual cash flows are consistent with a basic lending arrangement). For the purposes of this test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. In performing the SPPI test, terms that could change the contractual cash flows so that they are not SPPI are considered, such as: contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Based on the two assessments, financial assets are classified as amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), as follows:

- **Amortised cost**: when the financial asset is held in a hold-to-collect business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVOCI**: when the financial asset is held in a hold-to-collect-and-sell business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVTPL**: when the financial asset does not meet the criteria to be classified as amortised cost or FVOCI.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. For financial assets that meet the requirements to be classified as amortised cost or FVOCI, on initial recognition, the Group may irrevocably designate the financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in equity instruments are normally classified as FVTPL. However, on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect, on an investment-by-investment basis, to present subsequent changes in fair value in the statement of other comprehensive income.

After initial recognition, financial assets are reclassified only under the rare circumstances that the Group changes its business model for managing financial assets.

Financial assets classified as amortised cost are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at amortised cost using the EIR method (see Note 7(c)). Amortised cost is reduced by impairment losses (see Note 7(u)). Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVOCI are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at fair value, with changes in fair value recognised in other comprehensive income and presented in the FVOCI reserve in the statement of financial position. Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit and loss.

Classification and measurement of financial liabilities
Financial instruments are classified as a financial liability when the substance of the contractual arrangements result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments.

Financial liabilities are classified at initial recognition as FVTPL or amortised cost as follows:

- **FVTPL:** when the financial liability meets the definition of held for trading, or when the financial liability is designated as such to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
- **Amortised cost:** when the financial liability is not classified as FVTPL.

Financial liabilities classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest, are recognised in the statement of profit and loss.

Financial liabilities classified as amortised cost are initially measured at fair value minus incremental direct transaction costs. Subsequent measurement is at amortised cost using the EIR method (see Note 7(c)). Interest expense is recognised in the statement of profit and loss.

Derecognition of financial assets and financial liabilities
Derecognition is the point at which the Group ceases to recognise a financial asset or a financial liability on its statement of financial position.

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for the year ended 31 December 2023

7. Material accounting policies (continued)

A financial asset (or a part of a financial asset) is derecognised when:

- the contractual rights to the cash flows from the financial asset have expired;
- the financial asset is transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the financial asset is transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained and control of the asset is not retained. If control of the asset is retained, the transferred asset continues to be recognised only to the extent of the Group's continuing involvement, with the remainder being derecognised.

A financial liability (or a part of a financial liability) is derecognised when the contractual obligations are extinguished (i.e. discharged, cancelled, or expired). On derecognition, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received/paid (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss. For financial assets classified as FVOCI, any gains/losses accumulated in the FVOCI reserve are reclassified to the statement of profit and loss.

Modification of financial assets and financial liabilities
When a financial asset or financial liability is modified, a quantitative and qualitative evaluation is performed to assess whether or not the new terms are substantially different to the original terms.

For financial assets, the Group considers the specific circumstances including:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

For financial liabilities, the Group specifically, but not exclusively, considers the outcome of the '10% test'. This involves a comparison of the cash flows before and after the modification, discounted at the original EIR, whereby a difference of more than 10% indicates the modification is substantial.

If the terms and cash flows of the modified financial instrument are deemed to be substantially different, the derecognition criteria are met and the original financial instrument is derecognised and a 'new' financial instrument is recognised at fair value. The difference between the carrying amount of the derecognised financial instrument and the new financial instrument with modified terms is recognised in the statement of profit and loss.

If the terms and cash flows of the modified financial instrument are not deemed to be substantially different, the financial instrument is not derecognised and the Group recalculates the 'new' gross carrying amount of the financial instrument based on the revised cash flows of the modified financial instrument discounted at the original EIR and recognises any associated gain or loss in the statement of profit and loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the financial instrument and are amortised over the remaining term of the modified financial instrument by recalculating the EIR on the financial instrument.

In relation to financial assets, where a modification is granted due to the financial difficulty of the borrower, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. Under such circumstances, it is first considered whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and usually means the derecognition criteria are not met.

Since 1 January 2021, the Group has applied 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. The amendments provide a practical expedient that allows a change in the basis of determining the contractual cash flows of a financial instrument required by the reform to be accounted for by updating the EIR, rather than applying the modification policy outlined above. This practical expedient is only applied where the change to the contractual cash flows is necessary as a direct consequence of the reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. In the event changes are in addition to those required by the reform, the practical expedient is applied first, after which the usual accounting policy for modifications outlined above is applied.

Fair value of financial assets and financial liabilities
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Where possible, fair value is determined with reference to quoted prices in an active market or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where quoted prices are not available, generally accepted valuation techniques are used to estimate fair value, including discounted cash flow models and Black-Scholes option pricing. Where possible these valuation techniques use independently sourced market parameters, such as interest rate yield curves, option volatilities and currency rates.

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If it is determined that the fair value on initial recognition differs from the transaction price, such differences are accounted for as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability, or based on a valuation technique that uses only data from observable markets, the difference is recognised in the statement of profit and loss on initial recognition (i.e. day one profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day one profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the statement of profit and loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, assets are measured at bid price and liabilities are measured at ask price.

A fair value hierarchy is used that categorises financial assets and financial liabilities into three different levels, as detailed in Note 38(b). Levels are reviewed at each reporting date to determine whether transfers between levels are required.

Further details of the fair value calculation of derivative financial instruments are set out in Note 7(k).

Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions.

(u) Impairment of financial assets

See disclosures at Note 19

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. A summary of ECL measurement is as follows:

- **Financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls. Cash shortfalls are the difference between the contractual cash flows due and the cash flows that are expected to be received.
- **Financial assets that are credit-impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR.
- **Loan commitments:** as the present value of the difference between the contractual cash flows due if the commitment is drawn down and the cash flows that are expected to be received.

ECLs are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available at the reporting date, without undue cost or effort, about past events, current conditions and forecasts of future economic conditions.

ECLs are calculated and a loss allowance recorded for all financial assets not held at FVTPL (i.e. those at amortised cost and FVOCI) and for loan commitments. Assets held at FVTPL and equity instruments are not subject to impairment.

Loss allowances are presented in the statement of financial position as follows:

- **Financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the financial asset.
- **Financial assets measured at FVOCI:** in other comprehensive income in the FVOCI reserve. It does not reduce the carrying amount of the financial asset, which remains at fair value.
- **Loan commitments:** generally, as a provision.

Where a financial instrument includes both a drawn and an undrawn component, and the loss allowance on the undrawn component cannot be separately identified from the drawn component, a combined loss allowance is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross carrying amount of the drawn component is presented as a provision.

The calculation of ECLs is dependent upon the 'stage' the asset is assigned to (Stage 1, 2 or 3). The stage is determined based on changes in credit risk when comparing credit risk at initial recognition to credit risk at the reporting date, or whether the asset was purchased or originated credit-impaired (POCI).

Details of the 'staging' of assets and POCI assets, the calculation of ECLs and the key judgements and estimates associated with this, are provided in the credit risk section of the Risk Report starting on page 107.

It is possible to elect, as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has elected not to use this simplified approach.

Modifications
If a financial asset is modified, an assessment is made to determine whether it meets the derecognition criteria outlined in Note 7(t).

If the modification does not result in derecognition of the existing asset, the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

Notes to the financial statements

for the year ended 31 December 2023

7. Material accounting policies (continued)

If the modification does result in derecognition of the existing asset, the expected fair value of the 'new' asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original EIR of the existing financial asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including in determining whether a significant increase in credit risk has occurred and whether the new financial asset is deemed to be a POCI asset.

Write-offs
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when it is determined that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event, as detailed in Note 7(t).

Financial assets that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Amounts subsequently recovered on assets written off are recognised in impairment losses on financial assets in the statement of profit and loss.

(v) Capital securities

See disclosures at Note 40

Capital securities are classified as equity instruments, as the substance of the contractual arrangements are such that there is no present obligation to deliver cash, another financial asset or a variable number of equity instruments. The capital securities are measured at the fair value of the proceeds from the issuance less any costs that are incremental and directly attributable to the issuance (net of applicable tax).

Distributions to holders of the capital securities are recognised when they become irrevocable and are deducted from retained earnings in equity.

(w) Loan commitments

See disclosures at Note 46

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Certain uncommitted facilities are included within reported loan commitments where the terms are such that there is an obligation to the customer should the customer get into financial distress.

A loss allowance is recognised on loan commitments in accordance with the policies set out in Note 7(u). The loss allowance is included within provisions in the statement of financial position.

(x) Contingent assets and contingent liabilities

See disclosures at Note 47

Contingent assets are possible assets that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised in the financial statements, but they are disclosed if an inflow of economic benefits is probable.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Alternatively, they are present obligations that have arisen from past events where the outflow of resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements, but they are disclosed unless the probability of settlement is remote.

8. Critical accounting judgements and estimates

The preparation of financial statements requires the Group to make judgements and estimates that affect the application of accounting policies and the reported results and financial position.

Estimates, and the underlying assumptions driving these estimates, are reviewed by the Group on an ongoing basis. Due to the inherent uncertainty in making estimates, actual results reported in the future may differ from the amounts estimated. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the reported year, the areas involving the most complex and subjective judgements, and areas where estimates are considered to have the most significant effect on the financial statements, are set out in the following sections.

(a) Impairment losses on financial assets

See accounting policies at Note 7(u) and disclosures at Note 19

Impairment of financial assets is calculated using a forward-looking ECL model. The calculation and measurement of ECLs requires the use of complex judgements and represents a key source of estimation uncertainty.

Judgements
Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised in the financial statements. This involves judgements over whether the financial asset has had a significant increase in credit risk since initial recognition, whether the financial asset is in default or whether the financial asset is 'cured'; and
- application of judgemental adjustments to modelled ECLs when the Group judges that the modelled ECL amount does not adequately reflect the expected outcome.

Notes to the financial statements

for the year ended 31 December 2023

8. Critical accounting judgements and estimates (continued)

Estimates

Underlying assumptions used in estimating ECLs that, depending on a range of factors, could result in a material adjustment in the next financial year are:

- the forward-looking economic scenarios used;
- probability weightings applied to these scenarios; and
- model assumptions used, such as the probability of default and loss given default.

Additional details, of the critical judgements and estimates, including sensitivity analysis, are included in the credit risk section of the Risk Report starting on page 117 and page 119, respectively.

(b) Provisions for customer remediation and conduct issues

See accounting policies at Note 7(q) and disclosures at Note 33

Provisions have been recognised in respect of potential claims for instances of misrepresentation, breaches of contract or other wrongdoing by suppliers, in circumstances where the Group may have a liability under consumer credit legislation for the acts or omissions of suppliers (although the Group continues to pursue recovery from such suppliers). Calculating the amount of the provision requires judgement and represents a source of estimation uncertainty.

Judgements

The judgement considered to have the most significant effect on amounts in the financial statements is determining whether an event has occurred in the past that would result in a claim, and whether it is probable that such a claim would result in an outflow of resources for the Group.

In the current year, a specific area where significant judgement has been required relates to complaints from customers about holiday ownership (timeshare) products.

The provision made in relation to such claims relates to a specific sub-set of customer complaints where it is judged that an outflow of resources is probable.

Estimates

The timeshare model splits the portfolio into cohorts reflecting the loans that were impacted by the outcome of the Judicial Review and loans that were not. Each cohort has different assumptions (referred to as the base case) for number of complaints expected, the uphold rate and the amount of redress. For sensitivity modelling, where the sensitivity would result in the revised assumption being lower than the base case assumption, the sensitivity assumption has been floored at the base case assumption.

The following table sets out the underlying assumptions used in estimating the provision that, depending on a range of factors, could result in a material adjustment in the next financial year. Sensitivity analysis to illustrate the impact of, what the Group considers to be, reasonable changes to these underlying assumptions, is also provided.

Assumption	Sensitivity analysis
Number of complaints In deriving this figure the Group takes into account: • the status of current claims and projected potential future claims based on existing complaint data; and • the statutory limitation period.	The impact of a +/- 5 percentage point change in the absolute number of complaints would result in a £0.6 million increase or a £0.3 million decrease in the provision, respectively.
Number of upheld claims Once the number of complaints has been estimated, it is necessary to estimate how many of these claims will be upheld. The sensitivity is driven by the fact that we have limited claims that have completed the full review process including where customers might appeal to FOS for the claim to be reviewed. Therefore the final upheld number could be higher depending on final outcomes on complaints received but not yet processed to completion.	The impact of a +/-10 percentage point change in the average uphold rate per complaint would result in a £6.6 million increase or a £0.7 million decrease in the provision, respectively.
Redress costs on upheld claims This reflects the expected average customer compensation on the estimated number of upheld claims, based on agreed redress strategies (inclusive of loan balance adjustments and cash payments). This is based on actual claim data.	The impact of a +/-10 percentage point change in the average redress per complaint would result in a £0.8 million increase or decrease in the provisions, respectively.

(c) Fair value of debt instruments measured at fair value through other comprehensive income

See accounting policies at Note 7(t) and disclosures at Note 38(b)

The Group holds certain mortgage loans that are measured at FVOCI. In valuing these loans, the Group makes use of unobservable inputs (i.e. Level 3 in the fair value hierarchy) and the calculation represents a source of estimation uncertainty.

Estimates

To calculate the fair value of the loans measured at FVOCI, the Group uses the discounted cash flow method, in which the significant unobservable inputs are the risk-adjusted discount rate and prepayment curve used.

Additional details, including sensitivity analysis, are provided in Note 38(b) starting on page 241.

Notes to the financial statements

for the year ended 31 December 2023

8. Critical accounting judgements and estimates (continued)

(d) Securitisations

See accounting policies at Note 7(i) and disclosures at Note 23

Securitisation transactions involve the transfer of certain customer loans to a structured entity. In determining the accounting treatment to be applied for such transactions the Group must perform a number of complex assessments, which necessitates the application of judgement.

Judgements
Judgements considered to have the most significant effect on amounts in the financial statements are:

- assessing whether the Group controls the structured entity and whether it should therefore be treated as a subsidiary by virtue of control and consolidated; and
- assessing whether the securitised loans should be derecognised.

The outcome of these assessments significantly impacts the resulting accounting treatment and amounts recognised in the financial statements.

In making such assessments the structure and terms of the contractual arrangements are scrutinised, with particular consideration given to matters such as: who will service and manage the securitised loans and the ownership of any 'X' notes and residual certificates issued by the structured entity (which represents the 'equity' investment in the securitised loans, giving the rights to any excess spread and the risk of losses associated with any defaults).

During the year, the Group completed two securitisation transactions. Judgement was applied to ultimately conclude for both transactions that the structured entity should be consolidated and the loans retained on balance sheet, as detailed in Note 23.

9. Acquisition of subsidiary

See accounting policies in Note 7(a)

On 31 May 2023, following the receipt of regulatory and legal approval, Shawbrook Bank Limited, the Group's principal subsidiary, completed the acquisition of 100% of the ordinary shares of Bluestone Mortgages Limited (BML), making BML a wholly owned subsidiary of the Group.

BML is a specialist mortgage lender focused primarily on residential owner-occupied mortgages. Acquiring BML will strengthen the Group's presence in the specialist mortgage market, providing the Group with growth opportunities through an extended product range and increased distribution network.

BML has four wholly owned subsidiary companies, along with two subsidiaries by virtue of control, all of which become indirect subsidiary companies of the Group as part of this acquisition (see Note 43).

BML commenced being consolidated as a subsidiary of the Group from 31 May 2023, the date control transferred to the Group. In the seven months of the reporting period that BML has been a subsidiary of the Group, it has contributed net operating loss of £1 million and a loss before tax of £10.1 million to the Group's results. If the acquisition had occurred on 1 January 2023, it is estimated that the consolidated net operating income for the Group for the year ended 31 December 2023 would have been £592.9 million and consolidated profit before tax for the Group would have been £289.7 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2023.

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9. Acquisition of subsidiary (continued)

As detailed below, the Group has determined provisional fair values at the date of acquisition for the consideration transferred and the identifiable assets acquired and liabilities assumed. The Group continues to assess these amounts, in particular the fair value of identifiable net assets acquired, to determine if any additional information existed at the date of acquisition that would alter these amounts. This assessment will be completed by no later than 31 May 2024.

Consideration transferred

The acquisition date fair value of each major class of consideration transferred is as follows:

	£m
Cash	**44.7**
Total fair value of consideration transferred	**44.7**

There are no contingent consideration arrangements.

Identifiable assets acquired and liabilities assumed

The following table sets out information about the net assets acquired at the date of acquisition, including the carrying amount, fair value adjustments recognised and the resultant fair value. Details of the fair value adjustments recognised are set out on the following page as cross referenced in the table.

	Carrying amount £m	Fair value adjustment (See note below table) £m		Fair value £m
Cash and balances at central banks	**35.9**			**35.9**
Loans and advances to customers	**299.4**	**(3.2)**	i	**296.2**
Derivative financial assets	**15.1**			**15.1**
Property, plant and equipment	**1.4**			**1.4**
Intangible assets	**2.4**	**(1.4)**	ii	**1.0**
Deferred tax assets	**0.3**			**0.3**
Other assets	**5.0**			**5.0**
Debt securities in issue	**(316.9)**			**(316.9)**
Lease liabilities	**(1.0)**			**(1.0)**
Other liabilities	**(15.7)**			**(15.7)**
Total identifiable net assets acquired	**25.9**	**(4.6)**		**21.3**

Fair value adjustments per above table:

i: The net £3.2 million negative fair value adjustment to loans and advances to customers comprises: £0.9 million to remove the loss allowance on acquisition, as required by acquisition accounting; offset by a negative £4.1 million fair value adjustment reflecting the output of discounted cash flow model calculations.

ii: The net £1.4 million fair value adjustment to intangible assets comprises: the recognition of a £1.0 million separately identifiable intangible asset for broker relationships; offset by a negative £2.4 million fair value adjustment to reduce the value of capitalised software development costs.

As detailed in ‘i’ above, acquisition accounting requires the acquired loans to be recognised at fair value, resulting in a £nil loss allowance on acquisition. Subsequent to initial recognition at fair value, the loans are then subject to the Group’s ECL methodology, with a full loss allowance calculated. This resulted in a £0.4 million ECL charge being recognised in the statement of profit and loss immediately following the acquisition date.

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for the year ended 31 December 2023

9. Acquisition of subsidiary (continued)

Goodwill
Goodwill arising from the acquisition has been recognised as follows:

	£m
Fair value of consideration transferred	44.7
Fair value of identifiable net assets acquired	(21.3)
Goodwill recognised	**23.4**

The goodwill recognised is mainly attributable to the synergies expected to be achieved from integrating BML into the Group.

None of the goodwill recognised is expected to be tax deductible for trading purposes.

Acquisition related costs
In the year ended 31 December 2023, acquisition related costs of £2.8 million are recognised in administrative expenses in the statement of profit and loss (2022: acquisition related costs of £0.2 million).

Capital contribution from ultimate parent company
In conjunction with this transaction, the ultimate parent company, Marlin Bidco Limited, made a capital contribution to the Company of £14.3 million. This is recognised in the capital contribution reserve in the statement of financial position.

10. Segmental analysis

See accounting policies in Note 7(b)

The following section provides information regarding the operating segments of the Group. Substantially all of the Group's activities are in the UK and, as such, segmental analysis on geographical lines is not presented. The Group is not reliant on any single customer and therefore information about major customers is also not provided.

Operating segments
In the 2022 Annual Report and Accounts, the Group disclosed five reportable operating segments (Real Estate, SME, Consumer Lending, TML Mortgages, Savings and Central). In response to the acquisition of BML, as detailed in Note 9, a review of the Group's reportable operating segments was performed in accordance with the criteria in IFRS 8 'Operating Segments'. As a result, the previously disclosed Real Estate segment has been amended to extract all amounts relating to BML[1]. Amounts relating to BML are now aggregated with the previously disclosed TML Mortgages segment; forming a new reportable operating segment comprised of the two subsidiaries (Bluestone Mortgages Limited and The Mortgage Lender Limited). This new operating segment is referred to as 'Retail Mortgage Brands'.

In addition, during the year, the Group made a number of changes to how it reports its results to the chief operating decision maker, which for the Group represents the Executive Committee. Specifically, the presentation of interest expense by operating segment has been enhanced to reallocate certain items to the 'Other' operating segment. Consequently, the prior year operating segment disclosure has been updated to reflect this change.

New reportable operating segments	Description
Real Estate	Provides specialist commercial and residential mortgage products to professional landlords, investors and homeowners.
SME	Provides debt-based financing solutions to support UK small and medium-sized enterprises (SMEs).
Consumer Lending	Provides unsecured personal loans and unsecured loans through strategic partnerships.
Retail Mortgage Brands	Comprised of the Group's subsidiaries, The Mortgage Lender Limited and Bluestone Mortgages Limited. Provides residential mortgages for those with complex income profiles, including the self-employed, entrepreneurs and first-time buyers, and buy-to-let mortgages.

Any income or expense not allocated to the above reportable operating segments under the new methodology is included in 'Other', which does not represent a reportable operating segment.

1 Prior to the acquisition of BML, forward flow agreements were in place which meant certain loans originated by BML, and the associated income and expenses, were recognised in the Group's financial statements.

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for the year ended 31 December 2023

10. Segmental analysis (continued)

The following tables provide summarised information regarding the results of each reportable operating segment based on the new reportable operating segments and using the revised allocation methodology to reflect how results are provided to the chief operating decision maker. Prior year comparative information has been restated accordingly.

Where applicable, segment results are presented on an underlying basis, with underlying adjustments presented separately to allow reconciliation to the statutory results of the Group. Underlying adjustments are exceptional items of income or expense that are material by size and/or nature and are typically non-recurring. These items are presented separately in order to facilitate comparison of the Group's underlying performance from period to period. Further details about the underlying adjustments made are provided on page 11 of the Strategic Report.

The results for each segment are presented on a consolidated basis, as reviewed by the chief operating decision maker. Intra-group transactions between segments are minimal and are not separately disclosed. Intra-group transactions are conducted under terms that are usual and customary for such activities.

	Enterprise							
Year ended 31 December 2023	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Other £m**	**Underlying total £m**	**Underlying adjustment £m**	**Statutory total £m**
Interest and similar income	337.2	291.1	56.9	162.1	296.5	1,143.8	–	1,143.8
Interest expense and similar charges	(185.2)	(111.4)	(13.9)	(97.9)	(158.9)	(567.3)	–	(567.3)
Net interest income	152.0	179.7	43.0	64.2	137.6	576.5	–	576.5
Net operating lease income	–	1.5	–	–	–	1.5	–	1.5
Net fee and commission income/(expense)	(2.5)	10.0	(3.4)	1.9	(1.7)	4.3	–	4.3
Net gains on derivative financial instruments and hedge accounting	–	–	–	–	5.1	5.1	–	5.1
Net other operating expense	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Net operating income	149.5	191.2	39.6	66.1	140.1	586.5	–	586.5
Administrative expenses	(25.4)	(32.5)	(15.0)	(34.4)	(115.3)	(222.6)	(4.0)	(226.6)
Impairment losses on financial assets	(15.4)	(13.6)	(27.1)	(3.9)	(0.1)	(60.1)	–	(60.1)
Provisions	–	–	(1.7)	–	–	(1.7)	(11.4)	(13.1)
Total operating expenses	(40.8)	(46.1)	(43.8)	(38.3)	(115.4)	(284.4)	(15.4)	(299.8)
Profit/(loss) before tax	108.7	145.1	(4.2)	27.8	24.7	302.1	(15.4)	286.7

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10. Segmental analysis (continued)

Year ended 31 December 2022 (Restated)	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Other £m	Underlying total £m	Underlying adjustment £m	Statutory total £m
Interest and similar income	254.3	196.7	47.8	74.7	50.8	624.3	–	624.3
Interest expense and similar charges	(109.0)	(46.0)	(8.4)	(31.9)	30.7	(164.6)	–	(164.6)
Net interest income	145.3	150.7	39.4	42.8	81.5	459.7	–	459.7
Net operating lease income	–	1.7	–	–	–	1.7	–	1.7
Net fee and commission income/(expense)	(2.9)	9.3	(1.9)	2.2	(1.2)	5.5	–	5.5
Net gains on derecognition of financial assets measured at amortised cost	7.7	–	–	–	–	7.7	–	7.7
Net losses on derivative financial instruments and hedge accounting	(0.1)	–	–	–	(0.7)	(0.8)	–	(0.8)
Net other operating income	–	–	–	–	2.4	2.4	–	2.4
Net operating income	150.0	161.7	37.5	45.0	82.0	476.2	–	476.2
Administrative expenses	(25.0)	(29.1)	(13.3)	(23.6)	(98.7)	(189.7)	(5.0)	(194.7)
Impairment losses on financial assets	(6.4)	(15.3)	(20.3)	(5.7)	–	(47.7)	–	(47.7)
Provisions	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Total operating expenses	(31.4)	(44.4)	(34.4)	(29.3)	(98.7)	(238.2)	(5.0)	(243.2)
Profit/(loss) before tax	118.6	117.3	3.1	15.7	(16.7)	238.0	(5.0)	233.0

The following tables present summarised information about the Group's assets and liabilities based on the revised reportable operating segments. Prior period comparative information has been restated accordingly.

Loans and advances to customers and assets on operating leases (i.e. the Group's 'loan book') are allocated to the relevant lending segments. All other assets and liabilities are allocated to 'Other'.

As at 31 December 2023	**Enterprise Real Estate £m**	**Enterprise SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Other £m**	**Total £m**
Assets	**6,127.3**	**2,729.6**	**603.8**	**3,850.1**	**3,925.4**	**17,236.2**
Liabilities	**–**	**–**	**–**	**–**	**(15,897.5)**	**(15,897.5)**
Net assets/(liabilities)	**6,127.3**	**2,729.6**	**603.8**	**3,850.1**	**(11,972.1)**	**1,338.7**

As at 31 December 2022 (Restated)	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Other £m	Total £m
Assets	4,986.2	2,591.4	499.6	2,418.0	3,443.5	13,938.7
Liabilities	–	–	–	–	(12,798.9)	(12,798.9)
Net assets/(liabilities)	4,986.2	2,591.4	499.6	2,418.0	(9,355.4)	1,139.8

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11. Interest and similar income

See accounting policies in Note 7(c)

	2023 £m	2022 £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	**103.0**	31.0
On loans and advances to customers: loan receivables measured at amortised cost	**707.4**	522.6
On loans and advances to customers: loan receivables measured at FVOCI	**97.9**	23.0
On investment securities	**37.7**	11.5
Total interest income calculated using the effective interest rate method	**946.0**	588.1
Other interest and similar income		
On loans and advances to customers: finance lease and instalment credit receivables	**36.6**	28.0
On derivative financial instruments	**161.2**	8.2
Total other interest and similar income	**197.8**	36.2
Total interest and similar income	**1,143.8**	624.3

With the exception of interest on loans and advances to customers measured at FVOCI, interest income calculated using the effective interest rate (EIR) method is attributable to financial assets measured at amortised cost.

Interest on derivative financial instruments comprises £161.2 million of interest income (2022: £8.2 million of interest income). Of this amount, interest attributable to derivative financial instruments in qualifying hedging relationships hedging assets is £122.3 million of interest income (2022: £5.0 million of interest income).

12. Interest expense and similar charges

See accounting policies in Note 7(c)

	2023 £m	2022 £m
On amounts due to banks	**58.5**	18.3
On customer deposits	**409.4**	132.4
On derivative financial instruments	**70.7**	(0.9)
On debt securities in issue	**17.8**	6.5
On lease liabilities	**0.1**	0.2
On subordinated debt liability	**10.8**	8.1
Total interest expense and similar charges	**567.3**	164.6

Except for interest on derivative financial instruments and lease liabilities, amounts in the above table are calculated using the EIR method and are attributable to financial liabilities measured at amortised cost.

Interest on derivative financial instruments comprises £70.7 million of interest expense (2022: £4.3 million of interest expense and £5.2 million of interest income). Of this amount, interest attributable to derivative financial instruments in qualifying hedging relationships hedging liabilities is £27.8 million of interest expense (2022: £5.2 million of interest income).

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13. Net fee and commission income

See accounting policies in Note 7(d)

	2023 £m	2022 £m
Fee income on loans and advances to customers	**12.7**	10.5
Credit facility related fees	**4.2**	3.6
Fee and commission income	**16.9**	14.1
Fee and commission expense	**(12.6)**	(8.6)
Net fee and commission income	**4.3**	5.5

14. Derecognition of financial assets measured at amortised cost

See accounting policies in Note 7(t)

	2023 £m	2022 £m
Net gains on sale of customer loan portfolios	**–**	7.7
Net gains on derecognition of financial assets measured at amortised cost	**–**	7.7

In the comparative year ended 31 December 2022, the net gain was attributable to the sale of a portfolio of loans from Real Estate in January 2022. At the point of derecognition, the loan portfolio had a gross carrying amount (before loss allowance deducted) of £298.8 million and a carrying amount (after loss allowance deducted) of £298.3 million.

15. Administrative expenses

See accounting policies in Note 7(e)

	Note	**2023 £m**	2022 £m
Payroll costs	16	**131.8**	107.5
Depreciation of property, plant and equipment[1]	26	**3.5**	3.1
Amortisation of intangible assets	27	**8.1**	8.2
Other administrative expenses		**83.2**	75.9
Total administrative expenses		**226.6**	194.7

Other administrative expenses include fees paid to the Group's auditor, KPMG LLP, as detailed below. Amounts represent both current year costs and prior year overruns.

	2023 £000	2022 £000
Audit of these annual accounts	**170**	150
Audit of the annual accounts of subsidiary companies	**3,775**	2,915
Audit related assurance services	**387**	341
Other assurance services	**50**	50
Total auditor's remuneration	**4,382**	3,456

1 Includes depreciation of all asset categories except for assets on operating leases. Depreciation of assets on operating leases is presented as a separate line item in the statement of profit and loss, forming part of the net operating lease income total.

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for the year ended 31 December 2023

16. Employees

See accounting policies in Note 7(e)

Aggregate payroll costs included in administrative expenses (see Note 15) are as follows:

	2023 £m	2022 £m
Wages and salaries	**114.6**	92.8
Social security costs	**10.5**	9.1
Pension costs	**6.7**	5.6
Payroll costs	**131.8**	107.5

Wages and salaries include share-based payment charges. Further details regarding share-based payment transactions are provided in Note 17.

Pension costs represent contributions to defined contribution pension schemes. The Group does not operate any defined benefit pension schemes.

Details of Directors' remuneration are provided in Note 18.

The average number of persons employed by the Group on a full-time equivalent basis by reportable operating segment is set out in the following table.

	2023	2022 (Restated)[1]
Real Estate	**218**	211
SME	**265**	241
Consumer Lending	**82**	79
Retail Mortgage Brands	**276**	189
Other	**505**	409
Average employees (on a full-time equivalent basis)	**1,346**	1,129

Figures in the above tables include contracted employees of the Group only and do not include contractors.

17. Employee share-based payment transactions

See accounting policies in Note 7(e)

The Group operates one equity-settled share-based payment scheme and one cash-settled share-based payment scheme, as detailed below. The total expense recognised within payroll costs for these schemes is £0.8 million (2022: £0.1 million).

Management Incentive Plan (equity-settled)
The equity-settled Management Incentive Plan (MIP) was originally introduced for a set of individuals in April 2019. Individuals selected for inclusion in the equity-settled MIP were entitled to acquire non-voting 'B' Class ordinary shares in Marlin Bidco Limited, the ultimate parent company of the Group. Awards are subject to performance conditions relating to the equity valuation of the Group in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

During the year ended 31 December 2023, the charge recognised in payroll costs for the equity settled MIP is £0.7 million (2022: £0.1 million).

1 As detailed in Note 10, reportable operating segments have been revised during the year ended 31 December 2023. Comparative data has been restated accordingly to allocate staff to the revised segments using the same methodology applied in the current year.

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for the year ended 31 December 2023

17. Employee share-based payment transactions (continued)

Movements in the number of share-based awards during the year are as follows:

	2023	2022
As at 1 January	**9,400**	8,750
Granted	**–**	1,350
Forfeited	**–**	(700)
As at 31 December	**9,400**	9,400

None of the share-based awards have a contractual maturity date and none were exercisable as at 31 December in either of the reported years.

The grant date fair value of the share-based awards is determined using a Monte Carlo modelling technique. Key assumptions used in the valuation of awards granted in the comparative year and the resultant grant date fair value is set out in the following table. There were no awards made in the current reported year.

	2022 awards
Weighted average expected volatility	36.0%
Weighted average dividend yield	0%
Weighted average risk-free rate of return (based on government bonds)	0%
Weighted average expected life at grant date	2.9 years
Weighted average grant date fair value (per share)	£540

Expected volatility is calculated based on the historical volatility of banks closely aligned to the Group.

Management Incentive Plan (cash-settled)
The cash-settled MIP was introduced in May 2022. Individuals selected for inclusion in the cash-settled MIP are entitled to a cash payment subject to performance conditions relating to the equity valuation of the Group in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

In both reported years, the charge recognised in payroll costs for the cash-settled MIP, and the resultant liability recognised within other liabilities in the statement of financial position, is immaterial, totalling less than £0.1 million.

Movements in the number of awards during the year are as follows:

	2023	2022
As at 1 January	**200**	–
Granted	**–**	200
As at 31 December	**200**	200

The fair value of liability at both grant date and reporting date was calculated using the Monte Carlo modelling technique using the same assumptions as applied for the equity-settled MIP.

18. Directors' remuneration

	2023 £000	2022 £000
Directors' emoluments	**3,347**	3,278
Total Directors' remuneration	**3,347**	3,278

The above table includes both Executive and Non-Executive Directors. Further information is provided in the Directors' Remuneration Report starting on page 74.

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19. Impairment losses on financial assets

See accounting policies in Note 7(u)

Impairment losses on financial assets are attributable to the Group's loans and advances to customers and loan commitments. Impairment losses for the Group's other financial asset categories that are in scope of IFRS 9 impairments (cash and balances at central banks, loans and advances to banks and investment securities) are immaterial, totalling less than £0.1 million in both reported years.

The following table analyses impairment losses on financial assets by financial asset category.

	2023 £m	2022 £m
Impairment losses on loans and advances to customers at amortised cost		
Net ECL charge for the year	**19.8**	35.8
Loan balances written off in the year	**38.5**	14.4
Amounts recovered in the year in respect of loan balances previously written off	**(5.8)**	(4.7)
Total impairment losses on loans and advances to customers at amortised cost	**52.5**	45.5
Impairment losses on loans and advances to customers at FVOCI		
Net ECL charge for the year	**4.3**	2.4
Total impairment losses on loans and advances to customers at FVOCI	**4.3**	2.4
Impairment losses on loan commitments		
Net ECL charge/(credit) for the year	**3.3**	(0.2)
Total impairment losses on loan commitments	**3.3**	(0.2)
Total impairment losses on financial assets	**60.1**	47.7

Further analysis of the net ECL charge for the year in respect of loans and advances to customers at amortised cost, loans and advances to customers at FVOCI and loan commitments is provided in the credit risk section of the Risk Report on page 111, page 114 and page 116, respectively.

Critical accounting judgements and estimates
The impairment of financial assets is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 8(a) and in the credit risk section of the Risk Report starting on page 117 and page 119, respectively.

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20. Tax

See accounting policies in Note 7(f)

A summary of the tax charge recognised in the statement of profit and loss is as follows:

	2023 £m	2022 £m
Current tax		
Current year	**87.7**	71.1
Adjustment in respect of prior years	**(1.3)**	(1.8)
Total current tax	**86.4**	69.3
Deferred tax		
Origination and reversal of temporary differences	**(13.4)**	(11.9)
Adjustment in respect of prior years	**1.7**	0.9
Tax rate changes	**(0.1)**	–
Total deferred tax	**(11.8)**	(11.0)
Total tax charge	**74.6**	58.3

Additional information about the Group's deferred tax assets is provided in Note 28.

A reconciliation of profit before tax to the total tax charge is shown in the following table. The effective tax rate is 26% (2022: 25.0%). This is higher than the UK corporation tax rate due to the combined impact of the banking surcharge and the other adjustments set out in the table below.

	2023 £m	2022 £m
Profit before tax	**286.7**	233.0
Implied tax charge thereon at 23.5% (2022: 19%)	**67.4**	44.3
Adjustments		
Banking surcharge	**10.8**	17.0
Tax relief on coupon paid on capital securities	**(4.6)**	(2.3)
Adjustment in respect of prior years	**0.4**	(0.9)
Disallowable expenses and other permanent differences	**0.7**	0.2
Tax rate changes	**(0.1)**	–
Total tax charge	**74.6**	58.3

Tax rate changes
On 1 April 2023, the following tax rate changes came into effect:

- as part of the Finance Act 2021, the UK corporation tax rate increased from 19% to 25%.
- as part of the Finance Act 2022, the banking surcharge decreased from 8% to 3% and the banking surcharge exempt amount increased from £25 million to £100 million.

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21. Cash and cash equivalents

See accounting policies in Note 7(g)

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Cash and balances at central banks	**2,188.1**	2,037.1	**–**	–
Less: mandatory deposits with central banks	**(39.9)**	(29.6)	**–**	–
Loans and advances to banks	**480.7**	263.6	**–**	0.1
Total cash and cash equivalents	**2,628.9**	2,271.1	**–**	0.1

Mandatory deposits with central banks represent amounts held with the Bank of England in accordance with statutory requirements. These deposits are not included in cash and cash equivalents as they are not available for use in the Group's day-to-day operations.

The Group's cash and cash equivalents balance includes:

- £286.6 million (2022: £155.5 million) of cash collateral paid against derivative contracts.
- £139.3 million (2022: £59.5 million) of securitisation cash, which represents the cash balances of consolidated structured entities.
- £16.8 million (2022: nil) of cash collateral paid against repurchase agreements.

The loss allowance for both cash and balances at central banks and loans and advances to banks is immaterial in both reported years, totalling less than £0.1 million.

22. Loans and advances to customers

See accounting policies in Note 7(h)

The following tables analyse the carrying amount of loans and advances to customers by loan classification and agreement type. Finance lease and instalment credit receivables are presented within loans and advances to customers at amortised cost.

	Loans and advances to customers at amortised cost				
As at 31 December 2023	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	**Loans and advances to customers at FVOCI £m**	**Total £m**
Loan receivables	**10,173.3**	**(120.1)**	**10,053.2**	**2,812.0**	**12,865.2**
Finance lease receivables	**27.0**	**(1.0)**	**26.0**	**–**	**26.0**
Instalment credit receivables	**430.3**	**(9.1)**	**421.2**	**–**	**421.2**
	10,630.6	**(130.2)**	**10,500.4**	**2,812.0**	**13,312.4**
Fair value adjustments for hedged risk (see Note 25)			**(36.4)**	**3.3**	**(33.1)**
Total loans and advances to customers			**10,464.0**	**2,815.3**	**13,279.3**

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22. Loans and advances to customers (continued)

As at 31 December 2022	Loans and advances to customers at amortised cost: Gross carrying amount £m	Loss allowance £m	Carrying amount £m	Loans and advances to customers at FVOCI £m	Total £m
Loan receivables	9,043.7	(99.6)	8,944.1	1,316.4	10,260.5
Finance lease receivables	39.7	(2.0)	37.7	–	37.7
Instalment credit receivables	381.3	(10.2)	371.1	–	371.1
	9,464.7	(111.8)	9,352.9	1,316.4	10,669.3
Fair value adjustments for hedged risk (see Note 25)			(164.6)	(47.6)	(212.2)
Total loans and advances to customers			9,188.3	1,268.8	10,457.1

Additional analysis of the Group's loans and advances to customers at amortised cost and loans and advances to customers at FVOCI and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 111 and page 114, respectively.

Loans and advances to customers include the following pledged and transferred assets. Amounts represent the carrying amount (after loss allowance deducted).

- £2,057.1 million (2022: £1,602.3 million) positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £2,235.4 million (2022: £1,362.3 million) transferred to consolidated structured entities as part of securitisation programmes, which are pledged as collateral against debt securities in issue.

Loans and advances to customers also include loans with a carrying amount (after loss allowance deducted) of £12.0 million (2022: £31.6 million) that were offered under COVID-19 related business support schemes. The UK Government provides a guarantee to protect 80% of any post-recovery loss in the event of default on these loans. Details of claims made against the government guarantee are as follows:

	2023	2022
Number of claims made during the year	**8**	5
Amount pending receipt as at 1 January (£m)	**3.4**	–
Amount claimed during the year (£m)	**3.4**	3.8
Amount received on claims during the year (£m)	**6.6**	0.4
Amount pending receipt as at 31 December (£m)	**0.2**	3.4

Finance lease and instalment credit receivables
Finance lease and instalment credit receivables relate to agreements issued by the Group to customers for a variety of assets, predominantly plant and machinery. The following table sets out a maturity analysis, showing the undiscounted payments to be received after the reporting date and a reconciliation to the gross carrying amount of the receivable.

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22. Loans and advances to customers (continued)

	2023		2022	
	Finance lease receivables £m	**Instalment credit receivables £m**	Finance lease receivables £m	Instalment credit receivables £m
Undiscounted payments receivable				
Within one year	**12.0**	**283.9**	19.4	231.5
Between one and two years	**7.6**	**61.8**	10.5	65.3
Between two and three years	**5.4**	**74.8**	6.3	33.7
Between three and four years	**5.5**	**19.6**	4.1	58.8
Between four and five years	**1.1**	**7.7**	2.8	8.4
After five years	**0.0**	**1.1**	0.7	2.1
Total undiscounted payments receivable	**31.6**	**448.9**	43.8	399.8
Unearned finance income	**(4.6)**	**(18.6)**	(4.1)	(18.5)
Gross carrying amount	**27.0**	**430.3**	39.7	381.3

Instalment credit receivables include block discounting facilities of £295.4 million (2022: £239.7 million).

The cost of assets acquired by the Group during the year for the purpose of letting to customers under finance lease and instalment credit agreements is as follows:

	2023 £m	2022 £m
Finance lease agreements	**5.7**	11.8
Instalment credit agreements	**71.0**	37.8
Total cost of assets acquired during the year	**76.7**	49.6

Modifications

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans with a view to maximising recovery. Modifications occurring due to the customer encountering financial difficulties are referred to as forbearance activities. Details of forborne loans are provided in the credit risk section of the Risk Report starting on page 130.

No modification gains or losses were recognised in the statement of profit and loss in either reported year.

Write-offs still under enforcement activity

Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances to customers that were written off during the reporting period, and are still subject to enforcement activity, is £60.7 million (2022: £38.6 million).

23. Securitisations and structured entities

See accounting policies in Note 7(i)

Consolidated structured entities

The Group includes consolidated structured entities relating to securitisation programmes. These securitisations involve the transfer of certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. The Group continues to service the transferred loans in return for an administration fee and is entitled to any residual income from the structured entity after the debt obligations and senior expenses of the securitisation programme have been met.

Based on the structure of these securitisations, for accounting purposes, it is assessed that the Group controls the structured entities and they are therefore treated as subsidiaries and are fully consolidated (see Note 43). The transfer of loans does not meet the derecognition criteria and they therefore continue to be recognised in their entirety in loans and advances to customers in the statement of financial position.

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23. Securitisations and structured entities (continued)

The securitisations involve the simultaneous issue of debt securities by the structured entities to investors. The debt securities may be issued to external investors, which provides a form of long-term funding to the Group. Alternatively, some, or all, of the debt securities may be purchased by a subsidiary of the Group, Shawbrook Bank Limited. These internally held debt securities are used for funding and liquidity purposes. For example, they may be exchanged for UK gilts, referred to as a 'security swap', or they may be positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes.

During the year ended 31 December 2023, the following transactions with consolidated structured entities took place:

- BML, which was acquired in May 2023 (see Note 9), includes two consolidated structured entities relating to securitisation transactions, Genesis Mortgage Funding 2019-1 PLC and Genesis Mortgage Funding 2022-1 PLC. Genesis Mortgage Funding 2019-1 PLC has no remaining balances at the reporting date and does not therefore feature in the table on the following page.
- In June 2023, loans with a gross carrying amount (before loss allowance) of £677.6 million and a carrying amount (after loss allowance) of £676.7 million were transferred to Holbrook Mortgage Transaction 2023-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £677.6 million and £0.2 million of uncollateralised 'X' notes, all of which were retained by the Group and are eliminated on consolidation.
- In November 2023, loans with a gross carrying amount (before loss allowance) of £400.7 million and a carrying amount (after loss allowance) of £399.6 million were transferred to Lanebrook Mortgage Transaction 2023-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £400.7 million and £4.0 million of uncollateralised 'X' notes, £200.0 million of which was issued to external investors (see Note 34), with the remainder retained by the Group and eliminated on consolidation.

In the comparative year ended 31 December 2022, the following transaction with consolidated structured entities took place:

- In June 2022, loans with a gross carrying amount (before loss allowance deducted) of £351.9 million and a carrying amount (after loss allowance deducted) of £351.3 million were transferred to Ealbrook Mortgage Funding 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £351.9 million and £12.3 million of uncollateralised 'X' notes, all of which were retained by the Group and are eliminated on consolidation.
- In September 2022, the loan portfolio transferred to Shawbrook Mortgage Funding 2019-1 plc in June 2019 was repurchased and the outstanding debt securities were redeemed. A liquidator was appointed to liquidate Shawbrook Mortgage Funding 2019-1 plc. The company was dissolved in February 2024.
- In October 2022, loans with a gross carrying amount (before loss allowance deducted) of £342.8 million and a carrying amount (after loss allowance deducted) of £342.2 million were transferred to Lanebrook Mortgage Transaction 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £342.8 million and £3.4 million of uncollateralised 'X' notes, all of which were retained by the Group and are eliminated on consolidation.
- In December 2022, loans with a gross carrying amount (before loss allowance deducted) of £574.0 million and a carrying amount (after loss allowance deducted) of £573.2 million were transferred to Shawbrook Mortgage Funding 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £574.0 million and £0.2 million of uncollateralised 'X' notes, all of which were retained by the Group and are eliminated on consolidation.

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23. Securitisations and structured entities (continued)

The following table summarises the carrying amount of securitised loans that continue to be recognised in the statement of financial position and the associated debt securities issued by consolidated structured entities.

	2023		2022	
	Loans and advances securitised £m (Note 22)	**Debt securities in issue £m (Note 34)**	Loans and advances securitised £m (Note 22)	Debt securities in issue £m (Note 34)
Wandle Mortgage Funding Limited	**97.8**	**103.1**	133.0	142.2
Ealbrook Mortgage Funding 2022-1 plc	**206.7**	**253.3**	321.8	354.6
Lanebrook Mortgage Transaction 2022-1 plc	**318.7**	**335.7**	340.2	349.6
Shawbrook Mortgage Funding 2022-1 plc	**475.4**	**483.2**	570.6	575.6
Genesis Mortgage Funding 2022-1 PLC	**173.6**	**177.4**	–	–
Holbrook Mortgage Transaction 2023-1 plc	**568.0**	**611.8**	–	–
Lanebrook Mortgage Transaction 2023-1 plc	**400.3**	**407.8**	–	–
	2,240.5	**2,372.3**	1,365.6	1,422.0
Less: loss allowance on securitised loans	**(5.1)**		(3.3)	
Less: held by the Group (and eliminated on consolidation)		**(1,909.5)**		(1,305.6)
Total recognised in statement of financial position	**2,235.4**	**462.8**	1,362.3	116.4

Unconsolidated structured entities

The Group has interests in two unconsolidated structured entities associated with securitisation programmes. These securitisations involve the transfer of certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. The residual certificates, representing the rights to receive residual income from the structured entity, are sold as part of these transactions.

Based on the structure of these securitisations, for accounting purposes, it is assessed that the Group does not control the structured entities and they are therefore not consolidated. The transfer of loans meet the criteria for derecognition and they are therefore derecognised in their entirety from the statement of financial position, referred to as 'structured asset sales'.

There have been no new transactions with unconsolidated structured entities in either of the reported years.

A portion of the debt securities issued by unconsolidated structured entities as part of these securitisation transactions were purchased by a subsidiary of the Group, Shawbrook Bank Limited. The Group therefore has a direct interest in these unconsolidated structured entities. As at 31 December 2023, the carrying amount of the Group's investment in debt securities issued by unconsolidated structured entities is £117.6 million (2022: £126.4 million) (see Note 24). This amount represents the Group's maximum exposure to loss from its interests in unconsolidated structured entities.

As at 31 December 2023, the total asset value[1] of the unconsolidated structured entities that the Group has a direct interest in, including the portion in which the Group has no interest, is £560.5 million (2022: £672.0 million).

The Group does not provide any ongoing financial support to any of the unconsolidated structured entities that it has a direct interest in.

Critical accounting judgements

For each securitisation transaction completed, the assessments involved in determining whether the Group controls the structured entity and whether the loans meet the criteria to be derecognised are identified as involving critical accounting judgements. Additional details are provided in Note 8(d).

1 Based on unaudited management information provided by the unconsolidated structured entities.

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24. Investment securities

See accounting policies in Note 7(j)

	2023			2022		
	Covered bonds £m	Debt securities £m	Total £m	Covered bonds £m	Debt securities £m	Total £m
As at 1 January	**499.7**	**191.3**	**691.0**	392.5	129.5	522.0
Additions	**211.6**	**153.8**	**365.4**	139.5	65.3	204.8
Maturities	**(194.8)**	**(16.8)**	**(211.6)**	(33.5)	–	(33.5)
Other movements	**0.5**	**(23.2)**	**(22.7)**	1.2	(3.5)	(2.3)
As at 31 December	**517.0**	**305.1**	**822.1**	499.7	191.3	691.0

Debt securities represent mortgage-backed debt securities, of which £117.6 million (2022: £126.4 million) were issued by unconsolidated structured entities as part of securitisation transactions that were retained by the Group.

The Group's investment securities balance includes:

- £79.3 million (2022: £79.3 million) of debt securities positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £25.0 million (2022: nil) of restricted amounts invested in short-term money market funds by consolidated structured entities.

The loss allowance for investment securities is immaterial, totalling less than £0.1 million in both reported years.

25. Derivative financial instruments and hedge accounting

See accounting policies in Note 7(k) and Note 7(l)

Derivative financial instruments

Derivative financial instruments are used by the Group for risk management purposes to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex.

The following table analyses the Group's derivative financial instruments by instrument type and whether the instrument is designated as a hedging instrument in a qualifying hedging relationship.

	Assets		Liabilities	
As at 31 December 2023	**Nominal amount £m**	**Carrying amount £m**	**Nominal amount £m**	**Carrying amount £m**
Instruments not in hedging relationships				
Interest rate swaps	**1,888.8**	**67.0**	**6,813.1**	**65.1**
Spot and forward foreign exchange swaps	**7.3**	**–**	**21.5**	**–**
Total instruments not in hedging relationships	**1,896.1**	**67.0**	**6,834.6**	**65.1**
Instruments in fair value hedging relationships				
Interest rate swaps	**5,970.0**	**179.2**	**5,370.0**	**88.8**
Balance guaranteed swaps	**124.3**	**5.8**	**–**	**–**
Total instruments in fair value hedging relationships	**6,094.3**	**185.0**	**5,370.0**	**88.8**
Instruments in cash flow hedging relationships				
Interest rate swaps	**350.0**	**0.7**	**770.0**	**30.6**
Total instruments in cash flow hedging relationships	**350.0**	**0.7**	**770.0**	**30.6**
Total derivative financial instruments	**8,340.4**	**252.7**	**12,974.6**	**184.5**

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25. Derivative financial instruments and hedge accounting (continued)

As at 31 December 2022	Assets		Liabilities	
	Nominal amount £m	Carrying amount £m	Nominal amount £m	Carrying amount £m
Instruments not in hedging relationships				
Interest rate swaps	1,327.5	63.1	9,081.8	60.9
Spot and forward foreign exchange swaps	–	–	18.6	0.1
Total instruments not in hedging relationships	1,327.5	63.1	9,100.4	61.0
Instruments in fair value hedging relationships				
Interest rate swaps	5,664.0	264.0	1,825.0	26.0
Total instruments in fair value hedging relationships	5,664.0	264.0	1,825.0	26.0
Instruments in cash flow hedging relationships				
Interest rate swaps	295.0	3.6	162.0	3.5
Total instruments in cash flow hedging relationships	295.0	3.6	162.0	3.5
Total derivative financial instruments	7,286.5	330.7	11,087.4	90.5

Interest rate swaps are used to manage interest rate risk associated with the Group's loans and advances to customers (including pipeline loans) and customer deposits (including offers/ pipeline for savings).

Spot and forward foreign exchange swaps are used to manage foreign exchange risk associated with the Group's loans and advances to customers and loans and advances to banks.

Balance guaranteed swaps were acquired as part of the BML acquisition and fair value hedge accounting was designated on acquisition.

As part of the BML acquisition (see Note 9), the Group acquired derivative financial assets with a fair value of £15.1 million. This comprised balance guaranteed swaps held in fair value hedging relationships of £12.0 million and interest rate swaps not in hedging relationships of £3.1 million.

In respect of the derivative financial instruments set out above, cash collateral totalling £286.6 million has been paid (2022: £155.5 million) and £189.0 million has been received (2022: £290.0 million) (see Note 21 and Note 31, respectively). There was also securitisation collateral received in the form of Gilts with a nominal value of £52.6 million (2022: £nil) and a market value of £68.0 million (2022: £nil).

Additional information about market risk, and the use of derivatives in managing such risk, is included in the Risk Report starting on page 132.

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25. Derivative financial instruments and hedge accounting (continued)

The majority of the Group's derivatives are cleared through the London Clearing House via ABN Amro and Barclays. There are also over-the-counter (OTC) derivatives with BNP Paribas, Lloyds and NatWest. The following tables split out the total nominal amount of derivative financial instruments into cleared and OTC.

	Assets			Liabilities		
As at 31 December 2023	**Cleared £m**	**OTC £m**	**Total £m**	**Cleared £m**	**OTC £m**	**Total £m**
Instruments not in hedging relationships						
Interest rate swaps	**27.7**	**1,861.1**	**1,888.8**	**6,813.1**	**–**	**6,813.1**
Spot and forward foreign exchange swaps	**–**	**7.3**	**7.3**	**–**	**21.5**	**21.5**
Total instruments not in hedging relationships	**27.7**	**1,868.4**	**1,896.1**	**6,813.1**	**21.5**	**6,834.6**
Instruments in fair value hedging relationships						
Interest rate swaps	**5,812.4**	**157.6**	**5,970.0**	**5,370.0**	**–**	**5,370.0**
Balance guaranteed swaps	**–**	**124.3**	**124.3**	**–**	**–**	**–**
Total instruments in fair value hedging relationships	**5,812.4**	**281.9**	**6,094.3**	**5,370.0**	**–**	**5,370.0**
Instruments in cash flow hedging relationships						
Interest rate swaps	**350.0**	**–**	**350.0**	**770.0**	**–**	**770.0**
Total instruments in cash flow hedging relationships	**350.0**	**–**	**350.0**	**770.0**	**–**	**770.0**
Total derivative financial instruments	**6,190.1**	**2,150.3**	**8,340.4**	**12,953.1**	**21.5**	**12,974.6**

	Assets			Liabilities		
As at 31 December 2022	Cleared £m	OTC £m	Total £m	Cleared £m	OTC £m	Total £m
Instruments not in hedging relationships						
Interest rate swaps	152.7	1,174.8	1,327.5	9,081.8	–	9,081.8
Spot and forward foreign exchange swaps	–	–	–	–	18.6	18.6
Total instruments not in hedging relationships	152.7	1,174.8	1,327.5	9,081.8	18.6	9,100.4
Instruments in fair value hedging relationships						
Interest rate swaps	5,497.6	166.4	5,664.0	1,825.0	–	1,825.0
Total instruments in fair value hedging relationships	5,497.6	166.4	5,664.0	1,825.0	–	1,825.0
Instruments in cash flow hedging relationships						
Interest rate swaps	295.0	–	295.0	162.0	–	162.0
Total instruments in cash flow hedging relationships	295.0	–	295.0	162.0	–	162.0
Total derivative financial instruments	5,945.3	1,341.2	7,286.5	11,068.8	18.6	11,087.4

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25. Derivative financial instruments and hedge accounting (continued)

Hedge accounting
The Group holds certain derivative financial instruments as hedging instruments in fair value hedges and cash flow hedges in order to hedge exposures to changes in interest rates. Additional details of these hedges are provided in the following sections.

During the year ended 31 December 2022, one fair value hedge failed the effectiveness testing criteria and was de-designated. All other hedge accounting relationships have remained highly effective throughout both reported years.

Fair value hedges
Details of the Group's fair value hedges are presented in the following tables.

						Maturity
As at 31 December 2023	**Less than 1 month**	**1 - 3 months**	**3 months – 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Interest rate swaps						
Nominal amount (£m)	**438.2**	**844.9**	**4,437.2**	**5,507.1**	**112.6**	**11,340.0**
Average fixed interest rate	**3.23%**	**3.95%**	**4.64%**	**3.20%**	**2.08%**	**3.81%**
Balance guaranteed swaps						
Nominal amount (£m)	**–**	**–**	**–**	**124.3**	**–**	**124.3**
Average fixed interest rate	**0%**	**0%**	**0%**	**1.07%**	**0%**	**1.07%**

						Maturity
As at 31 December 2022	Less than 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	More than 5 years	Total
Interest rate swaps						
Nominal amount (£m)	237.0	168.2	3,324.8	3,669.3	89.7	7,489.0
Average fixed interest rate	1.29%	0.63%	3.10%	1.84%	0.61%	2.34%

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness is recognised in the statement of profit and loss on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main sources of ineffectiveness in these hedge relationships relate to the modelled prepayment/repayment behaviour and the assumptions that are used in modelling this behaviour.

		Carrying amount			
As at 31 December 2023	**Nominal amount £m**	**Assets £m**	**Liabilities £m**	**Change in fair value used for calculating ineffectiveness £m**	**Ineffectiveness recognised in statement of profit and loss £m**
Interest rate swaps	**11,340.0**	**179.2**	**88.8**	**(152.7)**	**0.5**
Balance guaranteed swaps	**124.3**	**5.8**	**–**	**(5.2)**	**(0.1)**

		Carrying amount			
As at 31 December 2022	Nominal amount £m	Assets £m	Liabilities £m	Change in fair value used for calculating ineffectiveness £m	Ineffectiveness recognised in statement of profit and loss £m
Interest rate swaps	7,489.0	264.0	26.0	174.6	(1.5)

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25. Derivative financial instruments and hedge accounting (continued)

Amounts relating to items designated as hedged items are as follows:

As at 31 December 2023	**Carrying amount £m**	**Accumulated fair value hedge adjustments included in the carrying amount of the hedged item[1] £m**	**Change in fair value used for calculating ineffectiveness £m**
Assets			
Fixed rate mortgage loans included in loans and advances to customers	**6,210.2**	**(36.2)**	**175.4**
Liabilities			
Fixed rate customer deposits included in customer deposits	**5,367.1**	**(2.8)**	**(22.2)**
Balance guaranteed swaps	**5.5**	**3.6**	**5.0**

As at 31 December 2022	Carrying amount £m	Accumulated fair value hedge adjustments included in the carrying amount of the hedged item[1] £m	Change in fair value used for calculating ineffectiveness £m
Assets			
Fixed rate mortgage loans included in loans and advances to customers	3,971.7	(212.2)	(191.7)
Liabilities			
Fixed rate customer deposits included in customer deposits	2,763.1	19.4	15.6

Cash flow hedges

Details of the Group's cash flow hedges are presented in the following tables.

						Maturity
As at 31 December 2023	**Less than 1 month**	**1 - 3 months**	**3 months – 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Interest rate swaps (pay fixed)						
Nominal amount (£m)	**–**	**–**	**–**	**560.0**	**210.0**	**770.0**
Average fixed interest rate	**–**	**–**	**–**	**4.60%**	**4.42%**	**4.55%**
Interest rate swaps (received fixed)						
Nominal amount (£m)	**–**	**–**	**170.0**	**180.0**	**–**	**350.0**
Average fixed interest rate	**–**	**–**	**5.16%**	**4.79%**	**–**	**4.97%**

						Maturity
As at 31 December 2022	Less than 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	More than 5 years	Total
Interest rate swaps (pay fixed)						
Nominal amount (£m)	–	–	–	165.0	292.0	457.0
Average fixed interest rate	–	–	–	4.04%	4.10%	4.08%

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness recognised in the statement of profit and loss and amounts reclassified from the cash flow hedging reserve to the statement of profit and loss are both presented on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main source of ineffectiveness in these hedge relationships relate to differences in the timing of cash flows between the hedged item and hedging instrument.

1 The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have been de-designated, for which the fair value hedged item adjustment is being amortised into the statement of profit and loss is £0.5 million (2022: £1.3 million).

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25. Derivative financial instruments and hedge accounting (continued)

As at 31 December 2023	**Nominal amount £m**	**Carrying amount** **Assets £m**	**Carrying amount** **Liabilities £m**	**Change in fair value used for calculating ineffectiveness £m**	**Change in value of hedging instrument recognised in other comprehensive income £m**	**Ineffectiveness recognised in statement of profit and loss £m**	**Amount reclassified from cash flow hedging reserve to statement of profit and loss £m**
Interest rate swaps (pay fixed)	**770.0**	**–**	**30.6**	**(20.3)**	**(20.2)**	**(0.1)**	**9.9**
Interest rate swaps (received fixed)	**350.0**	**0.7**	**–**	**(4.7)**	**(3.1)**	**(1.7)**	**(3.2)**

As at 31 December 2022	Nominal amount £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Change in fair value used for calculating ineffectiveness £m	Change in value of hedging instrument recognised in other comprehensive income £m	Ineffectiveness recognised in statement of profit and loss £m	Amount reclassified from cash flow hedging reserve to statement of profit and loss £m
Interest rate swaps (pay fixed)	457.0	3.6	3.5	38.4	38.4	–	2.2

Amounts relating to items designated as hedged items are as follows:

As at 31 December 2023	**Change in value used for calculating hedge ineffectiveness £m**	**Cash flow hedging reserve** **Continuing hedges £m**	**Cash flow hedging reserve** **Discontinued hedges £m**
Liabilities			
Floating rate debt securities included in debt securities in issue and floating rate borrowings included in amounts due to banks	**20.2**	**(30.5)**	**36.5**
Floating rate covered bonds and asset finance floating rate assets	**3.1**	**0.7**	**(0.6)**

As at 31 December 2022	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedging reserve Continuing hedges £m	Cash flow hedging reserve Discontinued hedges £m
Liabilities			
Floating rate debt securities included in debt securities in issue and floating rate borrowings included in amounts due to banks	38.4	0.1	38.3

Net gains and losses on derivative financial instruments and hedge accounting

Gains and losses on derivative financial instruments and hedge accounting recognised in the statement of profit and loss are summarised as follows:

	2023 £m	2022 £m
Net fair value gains/(losses) on derivative financial instruments	**(183.2)**	211.5
Net fair value gains/(losses) on hedged risk	**188.3**	(212.3)
Net gains/(losses) on derivative financial instruments and hedge accounting	**5.1**	(0.8)

Net fair value gains/(losses) on derivative financial instruments includes foreign exchange gains and losses.

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26. Property, plant and equipment

Year ended 31 December 2023	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2023	11.9	2.3	15.5	60.6	90.3
Additions	–	–	0.9	2.8	3.7
Acquisitions through business combinations	0.9	–	0.5	–	1.4
Disposals	–	–	–	(6.0)	(6.0)
Other movements*	–	–	–	7.6	7.6
Transfer to finance leases	–	–	–	(4.2)	(4.2)
As at 31 December 2023	12.8	2.3	16.9	60.8	92.8
Accumulated depreciation					
As at 1 January 2023	5.7	1.1	12.7	22.5	42.0
Charge for the year	2.0	0.4	1.1	8.2	11.7
Disposals	–	–	–	(5.3)	(5.3)
Other movements*	–	–	–	7.6	7.6
Transfer to finance leases	–	–	–	(3.7)	(3.7)
As at 31 December 2023	7.7	1.5	13.8	29.3	52.3
Carrying amount					
As at 1 January 2023	6.2	1.2	2.8	38.1	48.3
As at 31 December 2023	5.1	0.8	3.1	31.5	40.5

*Other movements of £7.6 million include operating lease costs and depreciation previously reported on a net basis.

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26. Property, plant and equipment (continued)

Year ended 31 December 2022	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2022	12.3	1.7	15.1	56.9	86.0
Additions	–	0.8	0.5	11.9	13.2
Disposals	(0.4)	(0.2)	(0.1)	(6.0)	(6.7)
Transfer to finance leases	–	–	–	(2.2)	(2.2)
As at 31 December 2022	11.9	2.3	15.5	60.6	90.3
Accumulated depreciation					
As at 1 January 2022	4.1	1.0	11.8	20.8	37.7
Charge for the year	1.8	0.3	1.0	8.7	11.8
Disposals	(0.2)	(0.2)	(0.1)	(5.2)	(5.7)
Transfer to finance leases	–	–	–	(1.8)	(1.8)
As at 31 December 2022	5.7	1.1	12.7	22.5	42.0
Carrying amount					
As at 1 January 2022	8.2	0.7	3.3	36.1	48.3
As at 31 December 2022	6.2	1.2	2.8	38.1	48.3

Further details relating to right-of-use leasehold property and assets on operating leases are provided in Note 35.

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27. Intangible assets

See accounting policies in Note 7(m)

	2023			2022		
	Goodwill £m	**Other intangibles £m**	**Total £m**	Goodwill £m	Other intangibles £m	Total £m
Cost						
As at 1 January	**54.8**	**67.5**	**122.3**	54.8	58.1	112.9
Additions	**–**	**14.5**	**14.5**	–	9.4	9.4
Acquisitions through business combinations	**23.4**	**1.0**	**24.4**	–	–	–
Disposals	**–**	**(0.1)**	**(0.1)**			
As at 31 December	**78.2**	**82.9**	**161.1**	54.8	67.5	122.3
Accumulated amortisation and impairment						
As at 1 January	**1.1**	**44.8**	**45.9**	1.1	36.6	37.7
Amortisation charge for the year	**–**	**8.1**	**8.1**	–	8.2	8.2
Disposals	**–**	**(0.1)**	**(0.1)**			
As at 31 December	**1.1**	**52.8**	**53.9**	1.1	44.8	45.9
Carrying amount						
As at 1 January	**53.7**	**22.7**	**76.4**	53.7	21.5	75.2
As at 31 December	**77.1**	**30.1**	**107.2**	53.7	22.7	76.4

Other intangibles predominantly comprises computer software, but also includes assets recognised on the acquisition of businesses, representing brands and the benefit of business networks. Other intangibles additions include £14.2 million of internally generated assets (2022: £9.3 million).

Goodwill impairment testing

The Group performed its annual assessment to identify any impairment to goodwill. For the purposes of impairment testing, goodwill is allocated to the Group's CGUs. The Group's CGUs are the same as the Group's operating segments per Note 10, with the exception that Retail Mortgage Brands is further divided into two CGUs representing the two subsidiaries that are combined in forming the segment (i.e. The Mortgage Lender Limited (TML) and Bluestone Mortgages Limited (BML)).

Goodwill is impaired if the carrying amount of a CGU exceeds the recoverable amount. Determining the recoverable amount involves the calculation of the CGU's value in use, which is derived by discounting the forecast cash flows (post-tax profits) to be generated from its continuing use, as described below.

Forecast cash flows are based on the Board approved budget and assumptions regarding the long-term pattern of sustainable cash flows thereafter. Five years of forecast cash flows (post-tax profits) are included in the discounted cash flow model (2022: five years). A terminal value growth rate of 1.0% is then applied into perpetuity to extrapolate cash flows beyond the cash flow period (2022: 1.0%). The terminal value growth rate is estimated by the Group taking into account rates disclosed by comparable institutions.

To discount the forecast cash flows, the Group derives a CGU specific discount rate. These discount rates are an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the CGU. The Group calculates the discount rates using the price-to-book ratio method, which incorporates target return on equity, growth rate and the price-to-book ratio. The discount rate for each CGU is adjusted to reflect the risks inherent to the individual CGU.

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27. Intangible assets (continued)

Discount rates used for each CGU are as follows:

	2023		2022	
	Post-tax	**Pre-tax**[1]	Post-tax	Pre-tax[1]
Real Estate	**12.8%**	**17.1%**	13.5%	17.7%
SME	**14.3%**	**19.0%**	14.5%	18.8%
TML	**15.3%**	**20.5%**	16.0%	21.1%
BML	**15.8%**	**21.5%**	–	–

In both reported years, impairment testing indicated the recoverable amount of each CGU was in excess of its carrying amount and, as such, no impairment losses have been recognised. Reasonably possible changes in forecast cash flows and the applied post-tax discount rate would not result in the recoverable amount of any CGU reducing below the carrying amount, as verified by sensitivity analysis.

A summary of the carrying amount of goodwill by CGU is as follows:

	2023					2022			
	Real Estate £m	**SME £m**	**TML £m**	**BML £m**	**Total £m**	Real Estate £m	SME £m	TML £m	Total £m
As at 1 January	**9.0**	**34.7**	**10.0**	**–**	**53.7**	9.0	34.7	10.0	53.7
Acquisitions through business combinations	**–**	**–**	**–**	**23.4**	**23.4**	–	–	–	–
As at 31 December	**9.0**	**34.7**	**10.0**	**23.4**	**77.1**	9.0	34.7	10.0	53.7

28. Deferred tax assets

See accounting policies in Note 7(f)

Deferred tax assets are attributable to the following items:

	2023 £m	2022 £m
Decelerated tax depreciation	**5.1**	6.1
IFRS 9 adjustment	**1.5**	1.9
Tax losses in subsidiary companies	**1.9**	3.3
SPV hedging swaps	**17.9**	–
Fair value through other comprehensive income reserve	**0.2**	4.0
Other	**9.1**	4.1
Total deferred tax assets	**35.7**	19.4

1 The Group applies post-tax discount rates to post-tax cash flows when testing CGUs for impairment. The pre-tax discount rate is disclosed in accordance with IAS 36 'Impairment of Assets'.

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28. Deferred tax assets (continued)

Movements in deferred tax assets are as follows:

	2023 £m	2022 £m
As at 1 January	**19.4**	14.2
Amounts recognised in statement of profit and loss (see Note 20):		
Current year movement	**13.4**	11.9
Adjustment in respect of prior years	**(1.7)**	(0.9)
Tax rate changes	**0.1**	–
Amounts recognised in other comprehensive income:		
Current year movement in cash flow hedging reserve	**8.0**	(9.8)
Current year movement in fair value through other comprehensive income reserve	**(3.8)**	4.0
Other:		
Acquisitions through business combinations	**0.3**	–
As at 31 December	**35.7**	19.4

The Group's business plans project future profits that are sufficient to fully recognise the deferred tax assets. The deferred tax assets will unwind over the remaining life of the underlying assets with which they are associated. Deferred tax assets have been calculated based on an aggregation rate of 26.9% (2022: 26.6%), which is the estimated rate of recovery that will unwind over the remaining life of the underlying assets with which they are associated. Deferred tax assets reflect the substantively enacted tax rate changes detailed in Note 20.

29. Other assets

	Group		**Company**	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Other debtors	**13.4**	3.5	**–**	**0.4**
Prepayments	**15.1**	10.3	**–**	**0.1**
Accrued income	**1.4**	1.3	**–**	**–**
Total other assets	**29.9**	15.1	**–**	**0.5**

30. Investment in subsidiaries

See accounting policies in Note 7(n)

The investment in subsidiary in the Company statement of financial position relates to the Company's investment in Shawbrook Bank Limited and is attributable to the following components.

	2023 £m	2022 £m
Equity shares	**267.8**	267.8
Capital securities	**125.0**	125.0
Capital contribution	**19.9**	5.6
Share-based payments	**19.1**	18.4
Total investment in subsidiaries	**431.8**	416.8

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30. Investment in subsidiaries (continued)

Movements in the Company's investment in subsidiaries are as follows:

	2023 £m	2022 £m
As at 1 January	**416.8**	416.7
Capital securities issued	–	124.0
Capital securities settled	–	(124.0)
Capital contribution	**14.3**	–
Share-based payments	**0.7**	0.1
As at 31 December	**431.8**	416.8

The capital contribution made during the year relates to Shawbrook Bank Limited's acquisition of BML, as detailed in Note 9.

Details of the capital securities transactions between Shawbrook Bank Limited and the Company are provided in Note 40.

Share-based payments are attributable to the scheme detailed in Note 17.

31. Amounts due to banks

See accounting policies in Note 7(o)

	2023 £m	2022 £m
Cash at Bank of England	**1,215.8**	1,208.5
Derivative collateral received	**189.0**	290.0
Other	**0.2**	0.2
Total amounts due to banks	**1,405.0**	1,498.7

Amounts due to banks include:

- £1,200.0 million (2022: £1,200.0 million) drawn under the Bank of England's Term Funding Scheme with additional incentives for SMEs, which fall due for repayment in 2025. These amounts are collateralised by customer loan assets and investment securities.
- £189.0 million (2022: £290.0 million) of cash collateral received against derivative contracts.

32. Customer deposits

See accounting policies in Note 7(p)

	2023 £m	2022 £m
Retail customers:		
Instant access	**5,586.5**	3,334.0
Term deposits and notice accounts	**7,947.7**	7,599.9
Corporate customers:		
Term deposits	**25.7**	–
Fair value adjustments for hedged risk	**2.8**	(19.4)
Total customer deposits	**13,562.7**	10,914.5

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33. Provisions

See accounting policies in Note 7(q)

	2023			2022		
	Loss provision £m	**Other provisions £m**	**Total £m**	Loss provision £m	Other provisions £m	Total £m
As at 1 January	**0.5**	**5.5**	**6.0**	0.7	13.5	14.2
Provisions utilised	**–**	**(6.5)**	**(6.5)**	–	(8.8)	(8.8)
Provisions made/(released)	**3.3**	**13.1**	**16.4**	(0.2)	0.8	0.6
As at 31 December	**3.8**	**12.1**	**15.9**	0.5	5.5	6.0

Loss provision

The loss provision represents the loss allowance on loan commitments (see Note 46). Provisions made/(released) represent the net ECL charge/(credit) for the year on loan commitments and is recognised in impairment losses on financial assets in the statement of profit and loss (see Note 19).

Other provisions

Other provisions represent provisions made in relation to customer remediation and conduct issues and provisions for legal costs to defend cases brought against the Group. Provisions made are recognised in provisions in the statement of profit and loss.

A reconciliation of the net amount recognised in provisions in the statement of profit and loss is as follows:

	2023 £m	2022 £m
Other provisions made	**13.1**	0.8
Other provisions utilised	**(6.5)**	(8.8)
Net charge/(credit) for provisions	**6.6**	(8.0)

Provisions made in the current period predominantly relates to timeshare complaints. The Group has received a number of complaints from customers about holiday ownership (timeshare) products, where the Group provided finance to customers to fund the purchase of those products. While the Financial Ombudsman Service had previously not upheld the majority of such complaints that were referred to it, in November 2021, they subsequently issued a final decision on one such complaint that was found in the customer's favour. The Group commenced a legal challenge of this decision by way of judicial review that was determined in May 2023. While the Group was ultimately unsuccessful in its challenge, the court found that the Financial Ombudsman Service made a number of errors of law in reaching its final decision and concluded each complaint must be carefully considered on its own individual facts.

In total, the Group has advanced loans of c. £200 million to customers in relation to timeshare financing. Based on the information available at the reporting date, the Group has recognised a provision of £11.4 million, reflecting the best estimate of probable outflows associated with timeshare claims. Ultimately redress will depend on claim rates. At this time, the Group believes the provision recognised is adequate. Further information regarding an associated contingent liability is provided in Note 47.

The Group has commenced work to pursue recoveries from either original suppliers or, failing that, the Group's insurers, however, in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', such reimbursement cannot be recognised as an asset unless it is virtually certain. The Group typically does not deem a reimbursement claim to be virtually certain until it has been accepted by the other party. At this point, the Group therefore discloses a contingent asset for reimbursements (see Note 47). In accordance with IAS 37, any recoveries from suppliers or insurers will be recognised in the statement of profit and loss within provisions.

Critical accounting judgements and estimates
The calculation of other provisions relating to customer remediation and conduct issues is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 8(b).

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34. Debt securities in issue

See accounting policies in Note 7(i)

Debt securities in issue comprise asset-backed notes issued to external investors by consolidated structured entities as part of securitisation transactions (see Note 23). The notes are secured on the underlying portfolio of securitised loans and recourse under the notes is limited to the structured entity only.

A summary of notes in issue is provided in the following table. Amounts included in the table include accrued interest and unamortised capitalised costs.

	Issued	Issuer	Listing	Optional redemption date	Maturity date	**2023 £m**	2022 £m
Senior notes	Aug 2021	Wandle Mortgage Funding Limited	Unlisted	Aug 2024	Oct 2038	**84.5**	116.4
Class A-E mortgage-backed floating rate notes	May 2022	Genesis Mortgage Funding 2022-1 PLC	Euronext Dublin	Jun 2025	Sept 2059	**177.4**	–
Class A mortgage-backed floating rate notes	Nov 2023	Lanebrook Mortgage Transaction 2023-1 plc	Euronext Dublin	May 2027	Aug 2060	**200.9**	–
Total debt securities in issue						**462.8**	116.4

Movements in the year are summarised in the following table:

	2023 £m	2022 £m
As at 1 January	**116.4**	319.2
Issuances	**200.0**	–
Acquisitions through business combinations	**316.9**	–
Repurchases and redemptions	**(170.3)**	(203.4)
Costs capitalised	**(0.2)**	(0.3)
Other movements	**–**	0.9
As at 31 December	**462.8**	116.4

During the year ended 31 December 2023, issuances comprised £200 million Class A mortgage-backed floating rate notes due 2027. These notes were issued to external investors in November 2023 by a consolidated structured entity, Lanebrook Mortgage Transaction 2023-1 plc, and are listed on Euronext Dublin.

As part of the BML acquisition (see Note 9), the Group acquired issued debt securities totalling £316.9 million, this comprised of £233.1 million Class A-E mortgage-backed floating rate notes due 2025 issued to external investors by a consolidated structured entity, Genesis Mortgage Funding 2022-1 plc and £83.8 million various notes issued by Bluestone Mortgage Finance 5 Ltd. Notes issued by Bluestone Mortgage Finance 5 Ltd were redeemed shortly after the acquisition date.

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35. Leases

See accounting policies in Note 7(r)

Group as a lessor: finance leases
Assets leased to customers under finance lease and instalment credit agreements are predominantly plant and machinery. The underlying asset provides security against the gross receivable and the Group provides no residual value guarantees in order to mitigate risk.

Details of the Group's finance lease and instalment credit receivables are set out in Note 22. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (the gross carrying amount of the receivable).

Finance income recognised during the year on finance lease and instalment credit receivables is included in other interest and similar income (see Note 11).

Group as a lessor: operating leases
Assets leased to customers under operating leases are predominantly plant and machinery. The carrying amount of the Group's assets on operating leases and the movements during the year are set out in Note 26.

Net income from operating leases is presented on the face of the statement of profit and loss.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2023 £m	2022 £m
Within one year	**6.7**	8.7
Between one and two years	**4.8**	6.1
Between two and three years	**3.7**	4.3
Between three and four years	**2.5**	3.3
Between four and five years	**1.7**	2.0
After five years	**0.5**	1.9
Total future minimum rentals receivable	**19.9**	26.3

Group as a lessee: finance leases
The Group has lease contracts for several buildings. These leases typically have lease terms of between 5 and 10 years. The Group does not sublease any of these leased assets.

Details of right-of-use assets recognised in relation to these leases, including the carrying amount and movements during the year, are set out in Note 26.

The carrying amount of associated lease liabilities and movements during the year are as follows:

	2023 £m	2022 £m
As at 1 January	**7.4**	9.8
Additions	–	–
Acquisitions through business combinations	**1.0**	–
Disposals	–	(0.2)
Interest expense	**0.1**	0.2
Payments	**(2.4)**	(2.4)
As at 31 December	**6.1**	7.4

A maturity analysis of lease liabilities is presented in the liquidity risk section of the Risk Report on page 135.

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35. Leases (continued)

The Group also has a number of low value lease contracts for office equipment, for which the Group applies the recognition exemption for leases of low value assets. For such leases, no right-of-use asset is recognised and lease payments are charged to administrative expenses in the statement of profit and loss.

The following table provides a summary of the amounts recognised in the statement of profit and loss:

	2023			2022		
	Administrative expenses £m	**Interest expense £m**	**Total £m**	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense on right-of-use assets	**2.0**	**–**	**2.0**	1.8	–	1.8
Interest expense on lease liabilities	**–**	**0.1**	**0.1**	–	0.2	0.2
Rental expense on low value assets	**0.8**	**–**	**0.8**	0.3	–	0.3
Total	**2.8**	**0.1**	**2.9**	2.1	0.2	2.3

Cash outflows from leases in the statement of cash flows are as follows:

	2023 £m	2022 £m
Payment of the interest portion of the lease liability (cash flows from operating activities)	**0.1**	0.2
Payment of the principal portion of the lease liability (cash flows from financing activities)	**2.3**	2.2
Total cash outflows from leases	**2.4**	2.4

In December 2023, the Group entered into a 10-year lease agreement for new office space with an anticipated lease commencement date of March 2024. The lease liability, representing the net present value for the total payments expected throughout the lease term, amounts to £31.3 million. As at 31 December 2022, the Group was not committed to any lease contracts that have not yet commenced.

36. Other liabilities

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Other creditors (including sundry creditors and other taxes)	**18.0**	17.6	**–**	0.1
Accruals	**52.6**	47.8	**0.1**	2.3
Amounts owed to Group companies	**–**	–	**7.3**	4.5
Total other liabilities	**70.6**	65.4	**7.4**	6.9

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37. Subordinated debt

See accounting policies in Note 7(s)

Subordinated debt liability
Subordinated debt liabilities comprise notes issued by the Company, as summarised in the following table. Amounts included in the table include accrued interest and unamortised capitalised costs.

	Issued	Listing	Call date[1]	Maturity date	**2023 £m**	2022 £m
6.5% fixed rate reset callable subordinated notes	Sep 2019	Open Market of Frankfurt Stock Exchange	Sep 2024	Sep 2029	**20.3**	20.3
9.0% fixed rate reset callable subordinated notes	Jul 2020	Global Exchange Market of Euronext Dublin	Jul 2025	Oct 2030	**76.5**	76.5
12.25% fixed rate reset callable subordinated notes	Oct 2023	International Securities Market of London Stock Exchange	Oct 2028	Jan 2034	**91.7**	–
Total subordinated liabilities					**188.5**	96.8

Movements in the year are summarised in the following table:

	2023 £m	2022 £m
As at 1 January	**96.8**	96.8
Issuances	**90.0**	–
Costs capitalised	**(1.0)**	–
Other movements	**2.7**	–
As at 31 December	**188.5**	96.8

During the year ended 31 December 2023, the Company established a £1 billion Euro Medium Term Note (EMTN) Programme. In October 2023, the Company completed its first issuance under the programme, issuing £90.0 million of 12.25% fixed rate reset callable subordinated notes. The notes are listed on the International Securities Market of the London Stock Exchange.

The principal terms of the subordinated debt liabilities are as follows:

- **Interest:** interest on the notes is fixed at an initial rate until the reset date. On the reset date, the interest rate will be reset and fixed based on a set margin above a defined market rate.
- **Redemption:** the Company may elect to redeem all, but not part, of the notes by exercising its call option as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** the notes constitute direct, unsecured and subordinated obligations of the Company and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity in the Company.

Subordinated debt receivable
The subordinated debt receivable in the Company statement of financial position represents subordinated debt issued to the Company by the Group's principal subsidiary, Shawbrook Bank Limited. The notes issued by Shawbrook Bank Limited are on terms consistent with the listed notes issued by the Company.

As at 31 December 2023, the subordinated debt receivable in the Company statement of financial position is £189.9 million (2022: £97.4 million). The loss allowance recognised on the subordinated debt receivable is £nil in both reported years.

1 The call date may be a fixed date or a defined period of time. Where it relates to a period of time, the date listed reflects the start of the period, thus reflecting the earliest date the call option may be exercised.

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38. Financial assets and financial liabilities

See accounting policies in Note 7(t)

(a) Classification of financial assets and financial liabilities

The following table analyses the carrying amount of the Group's financial assets and financial liabilities by measurement classification. There were no reclassifications between classification categories during either of the reported years.

	2023				2022			
	Amortised cost £m	**FVOCI £m**	**Mandatorily at FVTPL £m**	**Carrying amount £m**	Amortised cost £m	FVOCI £m	Mandatorily at FVTPL £m	Carrying amount £m
Financial assets								
Cash and balances at central banks	**2,188.1**	**–**	**–**	**2,188.1**	2,037.1	–	–	2,037.1
Loans and advances to banks	**480.7**	**–**	**–**	**480.7**	263.6	–	–	263.6
Loans and advances to customers[1]	**10,464.0**	**2,815.3**	**–**	**13,279.3**	9,188.3	1,268.8	–	10,457.1
Investment securities	**822.1**	**–**	**–**	**822.1**	691.0	–	–	691.0
Derivative financial assets	**–**	**–**	**252.7**	**252.7**	–	–	330.7	330.7
Total financial assets	**13,954.9**	**2,815.3**	**252.7**	**17,022.9**	12,180.0	1,268.8	330.7	13,779.5
Financial liabilities								
Amounts due to banks	**1,405.0**	**–**	**–**	**1,405.0**	1,498.7	–	–	1,498.7
Customer deposits	**13,562.7**	**–**	**–**	**13,562.7**	10,914.5	–	–	10,914.5
Derivative financial liabilities	**–**	**–**	**184.5**	**184.5**	–	–	90.5	90.5
Debt securities in issue	**462.8**	**–**	**–**	**462.8**	116.4	–	–	116.4
Lease liabilities[2]	**6.1**	**–**	**–**	**6.1**	7.4	–	–	7.4
Subordinated debt liability	**188.5**	**–**	**–**	**188.5**	96.8	–	–	96.8
Total financial liabilities	**15,625.1**	**–**	**184.5**	**15,809.6**	12,633.8	–	90.5	12,724.3

(b) Fair value of financial assets and financial liabilities

A summary of the valuation methods used by the Group to calculate the fair value of its financial assets and financial liabilities is as follows:

- **Cash and balances at central banks and loans and advances to banks:** fair value approximates the carrying amount as balances have minimal credit losses and are either short-term in nature or re-price frequently.
- **Loans and advances to customers:** fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, and adjusted for future credit losses if considered material.
- **Investment securities, debt securities in issue and subordinated debt liability:** fair value is based on quoted prices where available or by discounting cash flows using market rates.
- **Derivative financial instruments:** fair value is obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.
- **Amounts due to banks and customer deposits:** fair value is estimated using discounted cash flows applying either market rates where practicable, or rates offered with similar characteristics by other financial institutions. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate the carrying amount.

In accordance with IFRS 7, fair value disclosures are not required for lease liabilities. As such, the Group does not calculate a fair value for lease liabilities and they are not included in the following fair value disclosures.

1 The loans and advances to customers balance includes finance lease and instalment credit receivables, which are measured in accordance with IFRS 16 'Leases'. These are included in the amortised cost column.

2 Lease liabilities, which are measured in accordance with IFRS 16 'Leases', are included in the amortised cost column.

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38. Financial assets and financial liabilities (continued)

The Group uses a fair value hierarchy which reflects the significance of the inputs used in making fair value measurements. There are three levels to the hierarchy as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and
- **Level 3:** inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

In assessing whether a market is active, factors such as the scale and frequency of trading activity, the availability of prices and the size of bid/offer spreads are considered. If, in the opinion of the Group, a significant proportion of an instrument's carrying amount is driven by unobservable inputs, the instrument, in its entirety, is classified as Level 3 of the fair value hierarchy. Level 3 in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (for example, consensus pricing data may be used).

Financial assets and financial liabilities measured at amortised cost

The following table analyses the Group's financial assets and financial liabilities measured at amortised cost into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during either of the reported years.

	2023			2022		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at amortised cost						
Cash and balances at central banks	**–**	**–**	**2,188.1**	–	–	2,037.1
Loans and advances to banks	**–**	**480.7**	**–**	–	263.6	–
Loans and advances to customers	**10,464.0**	**–**	**–**	9,188.3	–	–
Investment securities	**–**	**117.6**	**704.5**	–	126.4	564.6
Financial liabilities at amortised cost						
Amounts due to banks	**–**	**1,405.0**	**–**	–	1,498.7	–
Customer deposits	**–**	**13,562.7**	**–**	–	10,914.5	–
Debt securities in issue	**–**	**462.8**	**–**	–	116.4	–
Subordinated debt liability	**–**	**188.5**	**–**	–	96.8	–

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38. Financial assets and financial liabilities (continued)

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial assets and financial liabilities measured at amortised cost.

For cash and balances at central banks, loans and advances to banks and assets held for sale, the carrying amount is considered to be a reasonable approximation of fair value and, as such, these are not included in the following table.

	2023		2022	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets at amortised cost				
Loans and advances to customers	**10,464.0**	**10,676.0**	9,188.3	9,336.0
Investment securities	**822.1**	**822.8**	691.0	687.7
Financial liabilities at amortised cost				
Amounts due to banks	**1,405.0**	**1,407.2**	1,498.7	1,500.2
Customer deposits	**13,562.7**	**13,484.3**	10,914.5	10,871.8
Debt securities in issue	**462.8**	**465.1**	116.4	117.1
Subordinated debt liability	**188.5**	**187.2**	96.8	94.8

Financial assets and financial liabilities measured at fair value

The following table analyses the Group's financial assets and financial liabilities measured at fair value into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during either of the reported years. All financial assets and financial liabilities measured at fair value are recurring fair value measurements.

	2023			2022		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at fair value						
Loans and advances to customers	**2,815.3**	**–**	**–**	1,268.8	–	–
Derivative financial assets	**–**	**252.7**	**–**	–	330.7	–
Financial liabilities at fair value						
Derivative financial liabilities	**–**	**184.5**	**–**	–	90.5	–

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38. Financial assets and financial liabilities (continued)

Financial assets and financial liabilities measured at fair value: Level 3 analysis
The following section provides additional analysis of the Group's financial assets and financial liabilities measured at fair value that are categorised as Level 3.

Movements in the fair value of Level 3 financial assets and financial liabilities are as follows:

	2023	2022		
	Loans and advances to customers at FVOCI £m	Loans and advances to customers at FVOCI £m	Derivative financial assets £m	Derivative financial liabilities £m
As at 1 January	**1,268.8**	–	0.2	(0.2)
Additions[1]	**1,514.2**	1,352.7	–	–
Net fair value gains/(losses) recognised in the statement of profit and loss	**54.7**	(47.6)	(0.2)	0.2
Net fair value gains/(losses) recognised in other comprehensive income	**9.9**	(17.1)	–	–
Settlements/repayments	**(32.3)**	(19.2)	–	–
As at 31 December	**2,815.3**	1,268.8	–	–

In relation to the above table:

- Net fair value gains/(losses) recognised in the statement of profit and loss are included in net gains/(losses) on derivative financial instruments and hedge accounting. The net gains/(losses) attributable to loans and advances to customers at FVOCI represent unrealised gains/(losses) on hedged items, which are largely offset by unrealised gains/(losses) on the derivative financial instruments in the hedge accounting relationship. The net gains/(losses) attributable to derivative financial instruments relate to the balance guaranteed swaps. In the comparative year, the amounts were attributable to swaps that matured and were therefore realised amounts.
- Net fair value gains/(losses) recognised in other comprehensive income are included in net gains/(losses) from changes in fair value in relation to the FVOCI reserve. All gains/(losses) recognised are unrealised.

For the Level 3 loans and advances to customers at FVOCI, the fair value is calculated using the discounted cash flow method. The significant unobservable inputs used in this calculation are the risk-adjusted discount rate, which is derived from cost of replacement assets based on period end closing swap rates, and the prepayment curve. As at 31 December 2023, the following risk-adjusted discount rates are used in the calculation of fair value on loans and advances to customers at FVOCI: commercial TML portfolio – 5.27%, secured residential TML portfolio – 6.26%, BML residential portfolio – 6.72%.

Critical accounting estimates
The valuation of loans and advances to customers at FVOCI is an area identified as involving critical accounting estimates. Additional details are provided in Note 8(c).

The Group believes that the calculated fair values are appropriate, however, the following table provides sensitivity analysis to illustrate the impact that reasonably possible changes could have on the asset value and total equity recognised as at 31 December 2023. There would be no impact to the statement of profit and loss as a result of these changes. The following table does not include sensitivity analysis on variable rate loans at FVOCI.

Change in significant unobservable input	**Increase/(decrease) to asset value and FVOCI reserve £m**
Decrease in discount rate by 50 bps	**42.8**
Increase in discount rate by 50 bps	**(41.7)**
Decrease in prepayment curve by 10%	**20.2**
Increase in prepayment curve by 10%	**(12.4)**

1 Additions include new financial assets originated or purchased, additional drawdowns and accrued interest.

Notes to the financial statements

for the year ended 31 December 2023

38. Financial assets and financial liabilities (continued)

(c) Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that are either offset in the statement of financial position, or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position.

Financial collateral amounts disclosed in the tables are limited to the net balance sheet exposure for the instrument in order to exclude any over collateralisation. Financial collateral amounts disclosed exclude initial margin cash collateral with central clearing houses. Financial collateral amounts disclosed as at 31 December 2023 do not include securities received with a notional of £69.3m and a market value of £85.7m. As at 31 December 2022, the Group didn't hold any collateral in the form of securities.

				Related amounts not offset		
As at 31 December 2023	**Gross amount £m**	**Amount offset £m**	**Net amount presented on statement of financial position £m**	**Subject to master netting arrangements £m**	**Financial collateral received/ pledged £m**	**Net amount £m**
Financial assets						
Derivative financial assets	**252.7**	**–**	**252.7**	**(4.1)**	**(177.5)**	**71.1**
Total financial assets	**252.7**	**–**	**252.7**	**(4.1)**	**(177.5)**	**71.1**
Financial liabilities						
Derivative financial liabilities	**184.5**	**–**	**184.5**	**–**	**(184.5)**	**–**
Total financial liabilities	**184.5**	**–**	**184.5**	**–**	**(184.5)**	**–**

				Related amounts not offset		
As at 31 December 2022	Gross amount £m	Amount offset £m	Net amount presented on statement of financial position £m	Subject to master netting arrangements £m	Financial collateral received/ pledged £m	Net amount £m
Financial assets						
Derivative financial assets	330.7	–	330.7	–	(271.5)	59.2
Total financial assets	330.7	–	330.7	–	(271.5)	59.2
Financial liabilities						
Derivative financial liabilities	90.5	–	90.5	–	(90.4)	0.1
Total financial liabilities	90.5	–	90.5	–	(90.4)	0.1

39. Share capital

Share capital comprises 253,086,879 issued and fully paid ordinary shares of £0.01 each, totalling share capital of £2,530,869. Each ordinary share has full voting, dividend and capital distribution rights, including on a winding up, but does not have any rights of redemption. There were no movements in share capital during either of the reported years.

Notes to the financial statements

for the year ended 31 December 2023

40. Capital securities

See accounting policies in Note 7(v)

Capital securities comprise securities issued by the Company, as summarised in the following table. Amounts included in the table are presented net of transaction costs of £1.9 million (2022: £2.1 million).

	Issued	Listing	Next call date[1]	**2023 £m**	2022 £m
12.103% fixed rate reset perpetual Additional Tier 1 write down capital securities	Oct 2022	International Securities Market of London Stock Exchange	Dec 2027	**122.1**	121.9
10.298% fixed rate reset perpetual Additional Tier 1 write down capital securities (interest rate reset from 7.875% in December 2022)	Dec 2017	Global Exchange Market of Euronext Dublin	Dec 2027	**1.0**	1.0
Total capital securities				**123.1**	122.9

Movements in the year are summarised in the following table:

	2023 £m	2022 £m
As at 1 January	**122.9**	124.0
Issuances	–	124.0
Issuance costs capitalised	–	(2.1)
Settlements (via exchange)	–	(124.0)
Amortisation of capitalised costs	**0.2**	–
Capitalised costs on settled instruments written off	–	1.0
As at 31 December	**123.1**	122.9

In the comparative year, holders of £125 million of capital securities that were issued in 2017 were invited to exchange their existing capital securities for new capital securities. The principal amount that was accepted for exchange was £124.0 million. Accordingly, £124.0 million new 12.103% fixed rate reset perpetual Additional Tier 1 write down capital securities was issued in exchange for the original capital securities issued in 2017. These new capital securities were listed on the International Securities Market of London Stock Exchange in October 2022. The remaining £1.0 million of capital securities issued in 2017 that was not accepted for exchange was reset to a new rate of interest of 10.298% in December 2022.

In both reported years, the Group paid all interest when scheduled. Distributions made to holders of the capital securities, recognised directly in equity, totalled £16.9 million (2022: £8.8 million).

The principal terms of the capital securities are as follows:

- **Interest:** interest is fully discretionary and the Company may elect to, or in certain circumstances is obliged to, cancel (in whole or in part) any interest otherwise scheduled to be paid. Any interest not paid when scheduled is cancelled. The capital securities bear a fixed rate of interest until the first reset date. On the first reset date, and on each fifth anniversary thereafter, the interest rate will be reset and fixed based on a set margin above a defined market rate.
- **Redemption:** the capital securities are perpetual with no fixed redemption date. The Company may elect to redeem all, but not part, of the capital securities by exercising its call option on certain dates, or during defined periods, as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Write-down:** in the event of the Group's Common Equity Tier 1 capital ratio falling below 7.0%, an automatic and permanent write down shall occur, resulting in the full reduction and cancellation of all capital securities and the cancellation of any interest which is accrued and unpaid.
- **Ranking:** the capital securities constitute direct, unsecured and subordinated obligations of the Company and rank pari passu, without any preference, among themselves. The capital securities also rank pari passu with the most senior class of issued preference shares in the Company, if any, and rank ahead of the holders of all other classes of issued shares of the Company, but rank junior to the claims of unsubordinated and subordinated creditors, other than those creditors whose claims rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the capital securities.

In conjunction with each transaction between the Company and external investors, equivalent transactions take place between the Company and its principal subsidiary, Shawbrook Bank Limited. The capital securities issued by Shawbrook Bank Limited are on terms consistent with the equivalent listed capital securities issued by the Company. This is recognised in the Company statement of financial position as part of the investment in subsidiaries (see Note 30).

1 The call date may be a fixed date or a defined period of time. Where it relates to a period of time, the date listed reflects the start of the period, thus reflecting the earliest date the call option may be exercised.

Notes to the financial statements

for the year ended 31 December 2023

41. Notes to the cash flow statement

Adjustments for non-cash items and other adjustments included in the statement of profit and loss

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
ECL charge on loans and advances to customers at amortised cost	**19.8**	35.8	**–**	–
ECL charge on loans and advances to customers at FVOCI	**4.3**	2.4	**–**	–
ECL charge/(credit) on loan commitments	**3.3**	(0.2)	**–**	–
Other movements on investment securities	**22.7**	2.3	**–**	–
Depreciation of property, plant and equipment	**11.7**	11.8	**–**	–
Amortisation of intangible assets	**8.1**	8.2	**–**	–
Other movements on subordinated debt	**2.7**	–	**0.2**	–
Other movements on debt securities in issue	**–**	0.9	**–**	–
Other movements on capital securities	**0.2**	–	**0.2**	–
Equity-settled share-based payments	**0.7**	0.1	**–**	0.1
Total non-cash items and other adjustments	**73.5**	61.3	**0.4**	0.1

Net change in operating assets

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Increase in mandatory deposits with central banks	**(10.3)**	(8.5)	**–**	–
Increase in loans and advances to customers	**(2,536.0)**	(2,237.9)	**–**	–
(Increase)/decrease in derivative financial assets	**63.2**	(273.0)	**–**	–
Increase in operating lease assets	**(1.6)**	(10.7)	**–**	–
Increase in other assets	**(9.8)**	(3.5)	**0.1**	0.7
Decrease in assets held for sale	**–**	299.7	**–**	–
(Increase)/decrease in operating assets	**(2,494.5)**	(2,233.9)	**0.1**	0.7

Net change in operating liabilities

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Increase in customer deposits	**2,648.2**	2,555.9	**–**	–
Increase/(decrease) in other provisions	**6.6**	(8.0)	**–**	–
Increase in derivative financial liabilities	**94.0**	82.4	**–**	–
Increase/(decrease) in other liabilities	**(10.5)**	2.7	**0.5**	6.9
Increase in operating liabilities	**2,738.3**	2,633.0	**0.5**	6.9

42. Ultimate parent company

The ultimate parent and controlling party of the Group is Marlin Bidco Limited. Marlin Bidco Limited is a company jointly owned by PSCM Pooling LP and Marlinbass Limited. Both companies are incorporated in Guernsey and are investment vehicles of Pollen Street Capital Limited and BC Partners LLP, respectively.

The largest company in which the results of the Group are consolidated is that headed by Shawbrook Group plc (see Note 1). No other financial statements include the results of the Group.

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for the year ended 31 December 2023

43. Subsidiary companies

See accounting policies in Note 7(a)

Wholly owned subsidiary companies
As at 31 December 2023, the Group includes the following subsidiary companies whose results are included in the consolidated financial statements. The Company's investment in subsidiaries is detailed in Note 30.

Name	Country of incorporation	Class of shares	Ownership %	Principal activity	Registered address (see below)	Audit status (see below)
Shawbrook Bank Limited and its subsidiaries, as follows:	England and Wales	Ordinary	100	Banking	a	i
The Mortgage Lender Limited (company number: 09280057)	England and Wales	Ordinary	100	Mortgage finance	a	ii
Bluestone Mortgages Limited (company number: 02305213) and its subsidiaries, as follows:	England and Wales	Ordinary	100	Mortgage finance	b	ii
Bluestone Mortgage Finance No. 3 Limited (company number: 10863328)	England and Wales	Ordinary	100	Special purpose vehicle	b	ii
Bluestone Mortgage Finance No. 5 Limited (company number: 13177731)	England and Wales	Ordinary	100	Special purpose vehicle	b	ii
Bluestone Mortgage Retention Finance No. 1 Limited (company number: 12087164)	England and Wales	Ordinary	100	Risk retention holder	b	ii
Bluestone Mortgage Retention Finance No. 2 Limited (company number: 13904329)	England and Wales	Ordinary	100	Risk retention holder	b	ii
Singers Corporate Asset Finance Limited (company number: 06863223)	England and Wales	Ordinary	100	Dormant	a	iii
Singers Healthcare Finance Limited (company number: 00983790)	England and Wales	Ordinary	100	Dormant	a	iii
Coachlease Limited (company number: 03462512)	England and Wales	Ordinary	100	Dormant	a	iii
Hermes Group Limited (company number: 02452917)	England and Wales	Ordinary	100	Dormant	a	iii
Singer & Friedlander Commercial Finance Limited (company number: SC053939)	Scotland	Ordinary	100	Dormant	c	iii
Link Loans Limited (company number: 06642090)	England and Wales	Ordinary	100	Dormant	a	iii
Centric SPV 1 Limited (company number: 06441060)	England and Wales	Ordinary	100	Dormant	a	iii
Resource Partners SPV Limited (company number: 03817443)	England and Wales	Ordinary	100	Dormant	a	iii

The following changes took place during the year ended 31 December 2023:

- Bluestone Mortgages Limited (BML) became a wholly owned subsidiary of Shawbrook Bank Limited, the Group's principal subsidiary, in May 2023 (see Note 9). BML has four wholly owned subsidiary companies, as detailed in above table, all of which became indirect subsidiary companies of the Group as part of the acquisition[1].

Registered addresses of the subsidiary companies included in the above table are as follows:

a: Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, England, CM13 3BE.
b: 3rd Floor, 22 Chancery Lane, London, United Kingdom, WC2A 1LS.
c: Nelson Mandela Place, Glasgow, Scotland, G2 1BT.

1 Bluestone Mortgage Finance No. 4 Limited, which was a wholly owned subsidiary of BML, was dissolved in April 2023 before the completion of the BML acquisition.

Notes to the financial statements

for the year ended 31 December 2023

43. Subsidiary companies (continued)

The audit status of the subsidiary companies included in the above table is as follows:

- **i:** audited accounts are prepared for the subsidiary company.
- **ii:** an exemption from audit has been applied and the Group guarantees all outstanding liabilities of the exempted subsidiary company in accordance with Section 479A-C of the Companies Act 2006.
- **iii:** an exemption from audit for dormant companies has been applied in accordance with Section 480 of the Companies Act 2006.

Subsidiaries by virtue of control

As at 31 December 2023, the Group includes the following structured entities relating to securitisation programmes (see Note 23). Shares of these entities are ultimately beneficially owned through an independent trust. However, for accounting purposes, the entities are controlled by the Group and, as such, they are treated as subsidiaries and are fully consolidated.

Name	Country of incorporation	Principal activity	Registered address (see below)	Audit status (see below)
Shawbrook Mortgage Funding 2019-1 plc (company number: 11546385)	England and Wales	Special purpose vehicle	a	ii
Shawbrook Mortgage Funding Holdings Limited	England and Wales	Special purpose vehicle	b	i
Wandle Mortgage Funding Limited	England and Wales	Special purpose vehicle	c	i
Ealbrook Mortgage Funding 2022-1 plc	England and Wales	Special purpose vehicle	b	i
Ealbrook Mortgage Funding 2022-1 Holdings Limited	England and Wales	Holding company	b	i
Lanebrook Mortgage Transaction 2022-1 plc	England and Wales	Special purpose vehicle	b	i
Shawbrook Mortgage Funding 2022-1 plc	England and Wales	Special purpose vehicle	b	i
Genesis Mortgage Funding 2019-1 PLC (company number: 12035334)	England and Wales	Special purpose vehicle	b	ii
Genesis Mortgage Funding 2022-1 PLC	England and Wales	Special purpose vehicle	d	i
Holbrook Mortgage Transaction 2023-1 plc	England and Wales	Special purpose vehicle	b	i
Lanebrook Mortgage Transaction 2023-1 plc	England and Wales	Special purpose vehicle	b	i

The following changes took place during the year ended 31 December 2023:

- BML, which was acquired in May 2023 (see 'wholly owned subsidiary companies' section above and Note 9), has two subsidiary companies by virtue of control, Genesis Mortgage Funding 2019-1 PLC and Genesis Mortgage Funding 2022-1 PLC. Both of these companies became indirect subsidiaries by virtue of control of the Group as part of the acquisition.
- Holbrook Mortgage Transaction 2023-1 plc became a subsidiary in June 2023 as part of a securitisation transaction (see Note 23).
- Lanebrook Mortgage Transaction 2023-1 plc became a subsidiary in November 2023 as part of a securitisation transaction (see Note 23).

The liquidation process of Shawbrook Mortgage Funding 2019-1 plc has been completed in February 2024. The liquidation process of Genesis Mortgage Funding 2019-1 plc remains ongoing. On completion, the companies will cease to be subsidiaries of the Group.

Registered addresses of the subsidiary companies included in the above table are as follows:

- **a:** 40a Station Road, Upminster, Essex, England, RM14 2TR.
- **b:** 1 Bartholomew Lane, London, England, EC2N 2AX.
- **c:** 6th Floor, 125 London Wall, London, England EC2Y 5AS.
- **d:** 10th Floor, 5 Churchill Place, London, United Kingdom, E14 5HU

The audit status of the subsidiary companies included in the above table is as follows:

- **i:** audited accounts are prepared for the subsidiary company.
- **ii:** an exemption from audit for dormant companies has been applied in accordance with Section 480 of the Companies
Act 2006.

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for the year ended 31 December 2023

44. Related party transactions

Transactions with key management personnel
Key management personnel refer to the Executive Management team and the Directors of the Group.

Total compensation for the year for key management personnel that are employed by the Group is as follows:

	2023 £m	2022 £m
Short-term employee benefits	**6.5**	6.3
Other long-term benefits	**1.0**	1.0
Termination benefits	**–**	–
Total compensation for employed key management personnel	**7.5**	7.3

In addition to the above, in the year ended 31 December 2023, the Group incurred fees in relation to the Institutional Directors appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement, totalling £0.1 million (2022: £0.1 million). The institutional Directors are not employed by the Group and, accordingly, their fees are not included in the above table.

Further details of compensation paid to the Directors of the Group are provided in the Directors' Remuneration Report on page 74.

The Group provides employee loans to certain key management personnel. These loans are subject to interest in accordance with the beneficial loan arrangements rate set by HMRC. The loans do not involve more than the normal risk of collectability or present other unfavourable features. As at 31 December 2023, the amount outstanding in respect of these loans is £0.6 million (2022: £0.5 million). Interest income recognised in respect of these loans is less than £0.1 million in both reported years. No provisions have been recognised in respect of these loans and no balances have been written off or forgiven during either of the reported years.

The Group holds savings deposits from certain key management personnel and their close family members. Such deposits are held in the ordinary course of business on normal commercial terms. As at 31 December 2023, the amount held in respect of these deposits is £0.8 million (2022: £0.6 million). Interest expense recognised in respect of these deposits is less than £0.1 million in both reported years.

The Group also issued subordinated notes listed on various stock exchanges. The key management personnel have subscribed for £25,000 aggregate principal amount of Fixed Rate Reset Callable Tier 2 Capital Notes due January 2034 and £50,000 aggregate principal amount of Fixed Rate Reset Callable Subordinated Notes due October 2030.

Transactions with the ultimate parent
The ultimate parent and controlling party of the Group is Marlin Bidco Limited (see Note 42).

As at 31 December 2023, the balance owed to Marlin Bidco Limited is £0.8 million (2022: £0.8 million).

In both reported years, certain employees, including key management personnel, have acquired non-voting 'B' Class ordinary shares in Marlin Bidco Limited as part of an employee share-based payment scheme (see Note 17).

Transactions between the Company and subsidiary companies
Subsidiary companies of the Group are detailed in Note 43.
Amounts due to the Company from its principal subsidiary, Shawbrook Bank Limited, and recognised in the Company statement of financial position, are as follows:

	Note	**2023 £m**	2022 £m
Other amounts payable	36/29	**(7.3)**	(4.5)
Subordinated debt receivable[1]	37	**188.5**	96.8
Total amounts due from subsidiary		**181.2**	92.3

Transactions during the year between the Company and Shawbrook Bank Limited, recognised in the Company statement of profit and loss, are as follows:

	2023 £m	2022 £m
Coupon on capital securities[2]	**16.9**	8.8
Interest on subordinated debt receivable	**10.5**	7.9
Management fee	**0.7**	0.3
Total income from subsidiary	**28.1**	17.0

1 The total subordinated debt receivable per Note 37 is £189.9 million (2022: £97.4 million). The difference compared to the amount presented in this table of £1.4 million (2022: £0.6 million) relates to capitalised amounts (capitalised costs and a modification loss), which do not constitute amounts owing between the parties.

2 The coupon on capital securities relates to capital securities issued to the Company by Shawbrook Bank Limited, which are included as part of the investment in subsidiaries (see Note 30).

Notes to the financial statements

for the year ended 31 December 2023

45. Capital commitments

As at 31 December 2023, the Group has no capital commitments (2022: £nil).

46. Loan commitments

See accounting policies in Note 7(w)

As at 31 December 2023, the Group has loan commitments, which are not recognised in the statement of financial position, of £1,280.8 million (2022: £1,628.7 million). A loss allowance of £3.8 million (2022: £0.5 million) is held against these loan commitments, which is recognised in provisions in the statement of financial position (see Note 33).

Additional analysis of the Group's loan commitments and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 116.

47. Contingent assets and contingent liabilities

See accounting policies in Note 7(x)

Part of the Group's business is regulated by the Consumer Credit Act (CCA), a piece of UK legislation designed to protect the rights of consumers. The Group's Consumer franchise is exposed to risk under Section 75 and Section 140A of the CCA, in relation to any misrepresentations, breaches of contract or other failures by suppliers of goods and services to customers, where the purchase of those goods and services is financed by the Group. While the Group would have recourse to the supplier in the event of such liability, if the supplier became insolvent that recourse would have limited value.

The Group continues to undertake reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance, which, based on current information, are not considered to be material. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter will not result in a material liability.

Additional information regarding specific matters of note is provided below to the extent possible, however it is highlighted that certain information usually required in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' may not be disclosed on the grounds that it may prejudice the position of the Group in any relating dispute with other parties.

Timeshare complaints
The Group has received a number of complaints from customers about holiday ownership (timeshare) products and as at 31 December 2023, the Group has recognised a provision of £11.4 million in relation to specific customer complaints (see Note 33). As this is an ongoing area of review there is potential for further liabilities from customers that have not yet complained. However, based on current evidence, the level of uncertainty regarding the outcome means the criteria to be recognised as a provision are not judged to have been met.

The Group has insurance cover in place that it believes would substantially recover any remediation costs incurred in relation to such timeshare claims. Discussions are ongoing regarding reimbursement, however, in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', such reimbursement cannot be recognised as an asset unless it is virtually certain. The Group typically does not deem a reimbursement claim to be virtually certain until it has been accepted by the other party. Consequently, at this point in time, the associated reimbursement claim is deemed to be a contingent asset, which leads to a timing difference when compared to the recognition of the provision for remediation costs.

Motor finance commission arrangements
The Group has received a number of complaints in respect of its historical regulated motor finance discretionary commission arrangements (DCAs). The Financial Ombudsman Service (the FOS) found in favour of the complainants in two decisions in January 2024 relating to other lenders. The Financial Conduct Authority (FCA) notes that this is likely to prompt a significant increase in complaints from consumers to lenders and the FOS. The FCA therefore announced they are using their powers under s166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales across several firms (which currently does not include the Group). Until that review is concluded, the usual timeframes for handling such complaints have been suspended. As this is an ongoing review, with the findings not expected to be published until September 2024, it is currently not possible to predict the ultimate outcome of any such complaints, including the financial impact or the scope or nature of any remediation requirements. The Group has however undertaken a review of its historical regulated motor finance lending that might be considered in scope and, due to low volumes, it is not expected that the outcome of the FCA review and any resulting remediation of in-scope complaints would have a material financial impact on the Group.

48. Events after the reporting period

There have been no significant events between 31 December 2023 and the date of approval of the 2023 Annual Report and Accounts that require a change or additional disclosure in the financial statements.

Other information

Abbreviations

Throughout this document:

'**Company**' refers to:	Shawbrook Group plc
'**Group**' refers to:	the 'Company' and its subsidiaries
'**Shawbrook**' refers to:	the 'Group'
'**Shareholder**' refers to:	Marlin Bidco Limited

The following abbreviations are used within this document:

API	Application programme interface
BML	Bluestone Mortgages Limited
bps	Basis point
CAIS	Credit Account Information Sharing
CCA	Consumer Credit Act
CET1	Common Equity Tier 1
CGU	Cash generating unit
the 'code'	UK Corporate Governance Code 2018
COVID-19	Coronavirus disease
CRD V	Capital Requirements Directive
CRM	Customer relationship management
CRR/CRR II	Capital Requirements Regulation
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected credit loss
EDI	Equality, diversity and inclusion
EIR	Effective interest rate
EPC	Energy performance certificate
ESG	Environmental, social and governance
EU	European Union
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
HMRC	HM Revenue and Customs
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ISAs	Individual Savings Account
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
MIP	Management Incentive Plan
NSFR	Net stable funding ratio
OTC	Over-the-counter
PD	Probability of default
PMA	Post-model adjustment
POCI	Purchased or originated credit-impaired
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SICR	Significant increase in credit risk from initial recognition
SMEs	Small and medium-sized enterprises
SMF	Senior Management Function
SONIA	Sterling Overnight Index Average rate
SPPI	Solely payments of principal and interest on the principal amount outstanding
TCFD	Task Force on Climate-related Financial Disclosures
TFSME	Term Funding Scheme with additional incentives for SMEs
TML	The Mortgage Lender Limited
UK	United Kingdom
USA	United States of America

Time periods referred to within this document are defined as follows:

FY	Full year: 12 months from 1 January to 31 December
H1	First half: six month period from 1 January to 30 June
H2	Second half: six month period from 1 July to 31 December
Q1	First quarter: three month period from 1 January to 31 March
Q2	Second quarter: three month period from 1 April to 30 June
Q3	Third quarter: three month period from 1 July to 30 September
Q4	Fourth quarter: three month period from 1 October to 31 December

Performance indicators

Certain financial measures disclosed in the Annual Report and Accounts do not have a standardised meaning prescribed by international accounting standards and may not therefore be comparable to similar measures presented by other issuers. These measures are considered 'alternative performance measures' (non-GAAP financial measures) and are not a substitute for measures prescribed by international accounting standards. Definitions of financial performance indicators referred to in the Strategic Report (in alphabetical order) are set out below:

Average principal employed	The average of monthly closing loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment.
Common Equity Tier 1 (CET1) capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of risk	Impairment losses on financial assets, divided by, average principal employed.
Cost to income ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, net operating income.
Gross asset yield	Net operating income less interest expense and similar charges, divided by, average principal employed.
Leverage ratio	Total Tier 1 capital, divided by, total leverage ratio exposure measure.
Liability yield	Interest expense and similar charges, divided by, average principal employed.
Liquidity coverage ratio	Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario.
Loan book	The sum of loans and advances to customers1 (net of loss allowance and fair value adjustments for hedged risk) and the carrying amount of assets on operating leases included in property, plant and equipment.
Management expenses ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, average principal employed.
Net interest margin	Net operating income, divided by, average principal employed.
Return on lending assets before tax	Profit before tax, divided by, average principal employed.
Return on tangible equity	Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. 'Average tangible equity' is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two.
Risk-weighted assets	A measure of assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1.
Total capital ratio	Total regulatory capital, divided by, risk-weighted assets.
Total Tier 1 capital ratio	Total Tier 1 capital, divided by, risk-weighted assets.
Wholesale funding	The sum of amounts due to banks and debt securities in issue.

1 For the purpose of this calculation, loans and advances to customers includes both loans measured at amortised cost and loans at FVOCI, along with loans transferred to assets held for sale, which are still considered to be part of the Group's overall loan book until derecognised.

Country-by-country reporting

The following disclosures are provided solely to comply with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. These disclosures may not be relied on for any other purpose.

The country-by-country reporting requirements originate from Article 89 of the Capital Requirements Directive (CRD IV). The purpose is to provide increased transparency regarding the source of the Group's income and the locations of its operations.

In both reported years, Shawbrook Group plc and its subsidiaries (the 'Group') are all UK registered entities.

The activities of the Group are detailed in Note 1 of the Financial Statements and in the Strategic Report. Details of subsidiary companies included in the Group are provided in Note 43 of the Financial Statements.

Required disclosures for the year ended 31 December are summarised below:

	2023 UK	2022 UK
Net operating income (£m)	**586.5**	476.2
Profit before tax (£m)	**286.7**	233.0
Tax charge (£m)	**74.6**	58.3
Tax paid (£m)	**88.1**	61.9
Average number of employees on a full-time equivalent basis	**1,269**	1,129

The Group received no public subsidies during either of the reported years.