

Interim Management Statement - Q1 2015

21 May 2015

Shawbrook Group plc - Strong organic originations at strong risk adjusted returns

Shawbrook Group plc today issues its Interim Management Statement relating to the first quarter from 1 January 2015 to 31 March 2015.

Highlights

- Successful IPO with admission to the LSE main market on 8 April 2015, raising £90m of gross primary proceeds to support the capital position and future growth.
- Organic origination momentum sustained in Q1 2015 at £440m (Q1 2014: £282m) and on track to deliver annual originations in excess of £1.6bn in 2015.
- Net loans & advances to customers increased by 11.6% to £2,601m as at 31 March 2015 (31 December 2014: £2,331m) and on track to deliver targeted net growth of £0.7-0.8bn per annum.
- Gross yield compression from 9.0% to 8.5% is largely driven by business mix due to strong organic originations in the Commercial Mortgages division.
- Net interest margin in line with prior year at 6.0% as the benefits of a reducing liability yield are supporting stable NIM over the medium term.
- Cost of risk at 20bps continues to benefit from the prevailing economic conditions and remains lower than the expected through the cycle cost of risk of 50-60bps, contributing to the delivery of a high risk adjusted margin.
- Return on tangible equity was strong at 31.9% (reduced to 21.7% on a pro-forma basis assuming net primary proceeds of £82m for the full Q1 2015 period).
- Capital ratios have been bolstered by the primary proceeds raised through IPO with a CET1 ratio of 14.4% and total capital ratio of 16.3% at 31 March 2015 (on a pro-forma basis, including £82m of net primary proceeds).

Outlook

- We expect to continue the delivery of stable organic originations at high risk adjusted returns, maintaining focus on the high quality of the lending portfolio, supported by prudent levels of capital.
- The Group has made an encouraging start to the year and we are on track to achieve our 2015 expectations.

Group Key Performance Indicators

	Q1 2015 ⁽¹⁾ (Unaudited)	FY 2014
Assets		
Average principal employed (£m) ⁽²⁾	2,454.7	1,855.5
Loans and advances to customers (£m) ⁽³⁾	2,600.8	2,331.0
Originations (£m).....	440.1	1,366.4
Profitability		
Gross asset yield (%) ⁽⁴⁾	8.5	9.0
Liability yield (%) ⁽⁵⁾	(2.4)	(2.9)
Net interest margin (%) ⁽⁶⁾	6.0	6.1
Management expenses ratio (%) ⁽⁷⁾	(3.0)	(3.1)
Cost of risk (%) ⁽⁸⁾	(0.20)	(0.36)
Return on lending assets before tax (%) ⁽⁹⁾	2.9	2.6

	Q1 2015 ⁽¹⁾	FY 2014
Return on lending assets after tax (%) ⁽¹⁰⁾	2.3	2.0
Return on tangible equity (%) ⁽¹¹⁾	31.9	26.9
Return on tangible equity - pro-forma with IPO proceeds (%) ⁽¹²⁾	21.7	N/A
Cost/income ratio (%) ⁽¹³⁾	49.5	50.5
Balance sheet		
Loan-to-deposit ratio (%) ⁽¹⁴⁾	99.8	94.4
Liquidity		
Liquidity ratio (%) (15).....	16.6	21.1
Ratio of liquidity buffer eligible assets to liquidity balances (%) ⁽¹⁶⁾	93.4	92.8
Capital and leverage		
CET1 ratio (%) ⁽¹⁷⁾	14.4	11.5
Total capital ratio (%) (18).....	16.3	13.8
Leverage ratio (%) ⁽¹⁹⁾	8.7	6.3
Other		
Full time equivalents (period average).....	474	414
Earnings per share ⁽²⁰⁾	5.5p	15.2p

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About Shawbrook

Shawbrook is an independent specialist lending and savings bank serving UK SMEs and consumers with tailored products designed to address a selection of high growth sub-sectors of the overall lending industry. The Group's lending activities are primarily funded by a stable retail deposit book consisting of variable rate long-dated notice accounts (mostly 95 - 120 days' notice) and fixed rate fixed term accounts (mostly one - five years). Shawbrook Bank Limited is an operating entity of Shawbrook Group plc. In April 2015, Shawbrook Group plc's shares (SHAW.L) listed on the Main Market of the London Stock Exchange. Shawbrook Bank Limited is regulated by the Prudential Regulation Authority and the Financial Conduct Authority and is registered under the Financial Services Compensation Scheme.

Underlying income statement

	Q1 2015			
	Statutory accounts basis	Adjustments		Underlying results
		Corporate activity ⁽²¹⁾	IPO Costs ⁽²²⁾	
		(£m)		
		(unaudited)		
Interest income and similar income.....	47.8	-	-	47.8
Interest expense and similar charges.....	(14.8)	-	-	(14.8)
Net interest income.....	33.0	--	--	33.0
Net income from operating leases.....	1.2	-	-	1.2
Net fee and commission income.....	2.4	-	-	2.4
Net operating income.....	36.6	--	--	36.6

Q1 2015				
	Statutory accounts basis	Adjustments		Underlying results
		Corporate activity ⁽²¹⁾	IPO Costs ⁽²²⁾ (£m) (unaudited)	
Administrative expenses.....	(21.7)	0.2	3.4	(18.1)
Impairment losses on financial assets.....	(1.2)	–	–	(1.2)
Provisions for liabilities and charges.....	–	–	–	–
Profit before taxation.....	13.7	0.2	3.4	17.3
Income tax charge ⁽²³⁾	(3.6)	–	–	(3.6)
Profit for the period, attributable to owners	10.1	0.2	3.4	13.7

Important disclaimer

Certain information contained in this announcement, including any information as to the Group's strategy, market position, plans or future financial or operating performance, constitutes "forward looking statements". Such forward-looking statements are made based upon the expectations and beliefs of the Group's directors concerning future events impacting the Group, including numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate going forward, which may prove to be inaccurate. As such, the forward-looking statements contained in this announcement involve known and unknown risks and uncertainties, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

KPI definitions and underlying income statement adjustments:

Percentages and certain amounts included in this IMS have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

1. All KPI ratios have been annualised for Q1 2015 based on the 90 calendar days in January, February and March 2015.
2. Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of impairment provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts
3. Loans and advances to customers is presented net of impairment provision and includes operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
4. Asset yield is calculated as the sum of underlying interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments, divided by average principal employed.
5. Liability yield is calculated as underlying interest expense and similar charges divided by average principal employed.
6. Net interest margin is calculated as underlying net operating income divided by average principal employed.
7. Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.
8. Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.
9. Return on lending assets before tax is calculated as underlying profit before taxation divided by average principal employed.
10. Return on lending assets after tax is calculated as underlying profit for the year attributable to owners divided by average principal employed.
11. Return on tangible equity is calculated as underlying profit for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period, divided by two.
12. Return on tangible equity - pro-forma with IPO proceeds has been calculated as per the 'Return on tangible equity' described above, however with the pro-forma inclusion of net primary proceeds of £82m in the denominator.
13. The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.
14. The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.
15. The liquidity ratio is calculated as the liquidity reserve divided by customer deposits.
16. The ratio of liquidity buffer eligible assets to liquidity balances is calculated as the proportion of liquidity balances that are eligible for use in the liquidity buffer to total liquidity balances.
17. The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets. For the Q1 2015 ratio, net primary proceeds of £82m and Q1 2015 retained earnings have been included.
18. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets. For the Q1 2015 ratio, net primary proceeds of £82m and Q1 2015 retained earnings have been included.
19. The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets. For the Q1 2015 ratio, net primary proceeds of £82m and Q1 2015 retained earnings have been included.
20. Earnings per share is calculated as the underlying profit for the period, attributable to owners, divided by the number of ordinary shares in issue (250 million shares as at 31 March 2015).
21. Corporate activity costs includes £0.15 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012.
22. IPO costs include expenses incurred in Q1 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement.
23. Income tax charge on underlying adjustments has been assumed as £nil on the basis of being disallowable for tax purposes.

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