

Shawbrook Group plc

Interim Results for the six months ended 30 June 2016

27 July 2016

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.

CEO Statement

Shawbrook Group plc

Shawbrook Group plc ("Shawbrook" or "the Group") today announces continued strong underlying^a performance, in line with market expectations for the six months to 30 June 2016.

Commenting on the results, CEO Steve Pateman said:

"I am delighted to report that the business achieved a strong first half performance with underlying Profit Before Tax ("PBT") up 14% from the same period in 2015 to £38.0 million (statutory PBT: £35.2 million). This strong result is after taking into account the additional impairment charge announced on 28 June 2016 and absent this charge, underlying PBT in H1 2016 would have been 41% higher when compared

to H1 2015 (78% on a statutory PBT basis). This performance was driven by continued growth in the book to £3.8bn as we progressively increased originations by 22% to £993 million, with strong growth across all three divisions.

We have continued to deliver strong, sustainable returns with an underlying 12 month rolling RoTE to 30 June 2016 of 21.2%, 23.3% excluding the impairment charge (statutory RoTE: 21.2%). This reflects our disciplined approach to strong risk adjusted returns alongside continued investment to support the future growth of the loan book. Cost to income ratio of 47.9% (statutory cost to income ratio: 50.2%) demonstrates the benefits arising from economies of scale. Underlying EPS increased to 11p (statutory EPS: 10p) and we reaffirm our previous dividend guidance.

On management, I'm delighted to announce we have appointed Angela Wakelin to Chief Operating Officer who will lead the work on implementing the underlying operating model to support our growth strategy. This is a further important step in building a strong team at both a business and functional level to deliver on our stated goals and ambitions.

It is clear from the rapidly evolving and ever changing view of the future for the UK economy post the decision to leave the EU, that the situation will remain fluid for some time; we have already seen economic forecasts move from a near certain recession on the 24th June to lower but still respectable growth rates for 2017 in the latest IMF forecasts. Much remains to be resolved and this will undoubtedly influence consumer and business confidence as the future of our relationship with the EU becomes clearer - at present we are not seeing any material change in activity and indeed some markets that slowed in the run up to the Referendum have picked up. However it is too soon to fully assess the medium term impacts on the broader economy given the number of outcomes that remain possible.

The significant structural opportunities for Shawbrook to grow and to grow safely at the returns we have targeted remain and if anything, the probability of those structural opportunities being greater than we envisaged is higher as the incumbent banks accelerate cost reduction programmes to offset compressed margins in the safe haven markets upon which they will continue to focus.

We did not extend our risk appetite during the more benign part of the cycle and we therefore do not anticipate making fundamental adjustments to accommodate this potential cyclical downturn, this conservative approach is reflected in where we see our cost of risk now and going forward.

These results reflect the strength of our business and allow us to view the future with confidence; we have scale, resilience and opportunities for growth; our risk appetite is appropriately positioned as is our balance sheet and we have a management team that is experienced and capable of delivering the strategic goals we have set out."

Basis of preparation

The statutory results have been prepared in accordance with International Financial Reporting Standards (IFRS). Where appropriate, certain aspects of our results are presented to reflect the Board's view of the Group's underlying performance without distortions caused by non-recurring items that are not reflective of the Group's ongoing business. These aspects are referred to as "underlying results" for the purposes of the Interim Report. Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory results and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items.

In order to ensure equal prominence of both statutory and underlying results, we detail below a comparison of the statutory results to the underlying results:

	H1 2016 (£m)	H1 2015 (£m)	FY 2015 (£m)
Interest income, net fee and operating lease income	140.1	107.5	230.7
Interest expense and similar charges	(40.8)	(30.4)	(63.8)
Net Operating Income	99.3	77.1	166.9

Costs and provisions	(49.8)	(47.8)	(90.3)
Impairment losses on financial assets	(14.3)	(4.6)	(6.5)
Statutory Profit Before Taxation	35.2	24.7	70.1
Income tax charge	(9.6)	(5.9)	(11.6)
Profit for the period, attributable to owners	25.6	18.8	58.5
<u>Underlying Adjustments</u>			
IPO Transaction Costs	-	8.2	8.9
IFRS 2 Charge	1.8	-	-
Corporate Activity Costs	1.0	0.3	1.1
Underlying Profit Before Tax^b	38.0	33.2	80.1
Income tax on an underlying basis	(10.4)	(6.8)	(16.0)
Underlying profit for the period, attributable to owners	27.6	26.4	64.1

The underlying adjustments are as follows:

- IPO costs include expenses incurred in 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement. A further £3.7m was recognised in equity.
- IFRS 2 charges recognised in relation to share based awards made to Steve Pateman (Chief Executive Officer) in H1 2016, which were fully satisfied by Special Opportunities Fund (Guernsey) LP. This charge is a transfer from P&L to retained earnings and results from a one-off award.
- Corporate activity costs in 2015 and H1 2016 include the incremental costs of raising additional deposits to fund the property asset portfolio acquisition, which will be completed in July 2016. H1 2015 corporate activity costs includes £0.3 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. Corporate activity costs in FY15 include £0.6 million of final deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012.

Comparison of statutory KPIs to underlying KPIs:

	H1 2016		H1 2015 ^c		FY 2015	
	Statutory	Underlying	Statutory	Underlying	Statutory	Underlying
Profitability						
Gross asset yield (%) ⁽⁴⁾	7.9	7.9	8.5	8.5	8.5	8.5
Liability yield (%) ⁽⁵⁾	(2.3)	(2.2)	(2.4)	(2.4)	(2.4)	(2.3)
Net interest margin (%) ⁽⁶⁾	5.6	5.6	6.1	6.1	6.2	6.2
Management expenses ratio (%) ⁽⁷⁾	(2.8)	(2.7)	(3.8)	(3.1)	(3.3)	(3.0)
Cost of risk (%) ⁽⁸⁾	(0.80)	(0.80)	(0.36)	(0.36)	(0.24)	(0.24)
Return on lending assets before tax (%) ⁽⁹⁾	2.0	2.1	2.0	2.6	2.6	3.0
Return on lending assets after tax (%) ⁽¹⁰⁾	1.4	1.5	1.5	2.1	2.2	2.4
12-month rolling return on tangible equity (%) ⁽¹¹⁾	21.2	21.2	17.2	20.4	20.7	22.7
Cost/income ratio (%) ⁽¹²⁾	50.2	47.9	62.0	51.0	54.1	48.3
Earnings per share (Pence)	10.2	11.0	8.0	11.3	24.1	26.5

Certain financial measures disclosed in this report do not have a standardised meaning prescribed by the International Financial Reporting Standards (IFRS) and may therefore not be comparable to similar measures presented by other issuers. These measures are deemed to be Alternative Performance Measures ("APM"). All APMs referred to in this report are annotated and defined and the definitions of these measures can be found on page 16 of this report.

Highlights

- The Group delivered a strong performance in H1 2016, with underlying PBT increasing by 14% to £38.0 million (H1 2015: £33.2 million) and statutory PBT increased by 43% to £35.2 million (H1 2015: £24.7 million).
- The Group continues to maintain its returns discipline, resulting in a 12 month rolling RoTE⁽¹¹⁾ of 21.2% (23.3% when excluding the impairment charge) which compares to a 2015 RoTE of 22.7%.
- Underlying net interest margin⁽⁶⁾ for H1 2016 was 5.6% compared with 6.1% in H1 2015 and is stable against Q1 2016. The year on year reduction was driven by the mix impact highlighted in the Q1 2016 IMS following the acquisition of the lower yielding yet strong RoTE property portfolio in December 2015.
- The Group continues to benefit from scale efficiencies and has achieved a reduction in the underlying cost to income ratio⁽¹²⁾ to 47.9% (H1 2015: 51.0%) whilst continuing to invest in people, technology and infrastructure to support the delivery of the Group's strategy. The period average headcount increased to 556 during H1 2016 compared to an average of 514 in FY 2015. Key new initiatives include building out the direct Personal Loan proposition, lending into retirement mortgage product, building out our regional SME footprint and beginning the test and learn strategy in development finance.

Progressively increase originations

- The Group has achieved a 14% increase in the loan book from £3.4 billion at 31 December 2015 to £3.8 billion at 30 June 2016. Gross organic originations amounted to £993 million, an increase of 22% compared to H1 2015.
 - Ø Organic originations in the Property Finance division increased by 19% from £416 million in H1 2015 to £495 million in H1 2016 as volumes have remained robust following the stamp duty changes which came into effect on 1 April 2016. Included in the total originations of £495 million are second charge mortgage originations of £103 million. Despite disruption arising from the transition from the Consumer Credit Act to the Mortgage Credit Directive in the second charge mortgage market, originations have remained in line with management's expectations as the division worked closely with our strategic partners to ensure a smooth and effective transition.
 - Ø The Business Finance division achieved £363 million of organic originations, a 19% increase from £306 million in H1 2015. This growth has been driven by strong growth in the Group's Structured Finance portfolio. We have launched new product ranges in two specialist sectors of Marine Leisure and Technology Finance which also contributed to the division's success.
 - Ø Consumer lending originations for the period amounted to £135 million, an increase of 50% from the same period in 2015. The Consumer lending division is in the process of developing a direct to consumer proposition for the personal loans products which is expected to go live in H2 2016.

Maintain excellent credit quality

- The Group announced an additional impairment charge of £9 million due to irregularities on a number of loans in one office of our Asset Finance Business that did not meet the business's strict lending criteria. This isolated control breach was identified by the Group's upgraded risk management framework, systems and controls. Management believes that the £9 million provision allocated to this isolated incident is sufficiently prudent to cover the risk of realised loss on the impacted lease portfolio of £14.7 million.
- Excluding this isolated breach, the Group continues to experience a low cost of risk⁽⁸⁾ (H1 2016: 34bps excluding/80bps including the breach), reflective of a benign economic environment and the continued focus on originating high quality business against prudent credit principles that have remained largely unchanged since the inception of the Bank.
- The current benign environment is reflected in the Group's non-performing loan ratios. As at 30 June 2016, 1.2% of the Group's loans and advances to customers were 3+ months in arrears or impaired, with a coverage ratio of 55%. At 31 December 2015, these metrics were 0.8% and 54% respectively.

Maintain conservative foundations

- The Group maintains a strong capital position, with a CET1⁽²⁰⁾ ratio of 12.4% (31 December 2015: 14.4%) and a total capital ratio⁽²¹⁾ of 15.5% (31 December 2015: 18.0%). Including unverified profits results in a CET1⁽²⁰⁾ ratio of 13.0% and a total capital ratio⁽²¹⁾ of 16.1%. This allows the Group to continue to execute its strategy of constantly delivering growth in customer loans. The prudently positioned leverage ratio was stable at 30 June 2016 at 7.6% (8.0% when including unverified profits, 31 December 2015: 7.9%).
- The liquidity ratio⁽¹⁸⁾ of 18.5% at 30 June 2016 compares with 25.8% at 31 December 2015 as the Group held excess liquidity at 31 December 2015 in relation to the purchase of the Property portfolio.
- The Group continued to benefit from the FLS, with total drawings amounting to £307 million at 30 June 2016 (£270 million T-Bills available net of repo agreements) with further capacity to utilise.
- The Group remains predominantly retail deposit funded, with a loan to deposit ratio⁽¹⁷⁾ of 108% (31 December 2015: 104%).

Outlook

Following a strong H1 2016 and a solid H2 2016 pipeline, the Group is preparing to adapt to the macroeconomic environment following the referendum result for the UK to leave the European Union. The macroeconomic outlook is mixed with many economists expecting a softening of economic conditions in the short to medium term.

The BoE is preparing itself for a slowdown in the UK economy and has laid the ground for a possible interest rate cut or the need to introduce a monetary stimulus over the coming months. In addition, the prevailing political and economic uncertainty could result in deferred investment decisions and a decline in the demand for borrowing.

Despite the negative macroeconomic outlook, a number of opportunities may present themselves as the incumbent banks choose to further exit non-core markets. The interest rate floors in some of our loan portfolios also alleviate the potential downside on gross asset yields from a reduced base rate, supporting lending margins.

Against this backdrop, we will continue to be cautious yet confident in our outlook and we are well prepared for a softer economic environment. Our structural opportunities remain strong and we expect to grow our business against the strong return metrics we detailed on 5 May 2016 at our Capital Markets Day.

Business Review

Group Key Performance Indicators (refer to page 16 for Notes to the Business Review)

	H1 2016 ⁽¹⁾	H1 2015 ⁽¹⁾	FY 2015
Assets			
Average principal employed (£m) ⁽²⁾	3,583.5	2,551.2	2,712.8
Loans and advances to customers (£m) ⁽³⁾	3,823.3	2,716.7	3,361.0
Originations (£m)	992.7	811.9	1,684.9
Profitability (on an underlying basis)^d			
Gross asset yield (%) ⁽⁴⁾	7.9	8.5	8.5
Liability yield (%) ⁽⁵⁾	(2.2)	(2.4)	(2.3)
Net interest margin (%) ⁽⁶⁾	5.6	6.1	6.2
Management expenses ratio (%) ⁽⁷⁾	(2.7)	(3.1)	(3.0)
Cost of risk (%) ⁽⁸⁾	(0.80)	(0.36)	(0.24)
Return on lending assets before tax (%) ⁽⁹⁾	2.1	2.6	3.0
Return on lending assets after tax (%) ⁽¹⁰⁾	1.5	2.1	2.4
12-month rolling return on tangible equity (%) ⁽¹¹⁾	21.2	20.4	22.7
Cost/income ratio (%) ⁽¹²⁾	47.9	51.0	48.3
Earnings per share (pence)	10.2	8.0	24.1
Asset quality			
Ratio of impaired loans (%) ⁽¹³⁾	0.8	0.7	0.5
Ratio of past due over 90 days and impaired loans (%) ⁽¹⁴⁾	1.2	0.9	0.8
Forbearance cases ⁽¹⁵⁾	800	720	559
Forbearance principal employed (£m) ⁽¹⁶⁾	29.2	12.3	19.0
Balance sheet			
Loan-to-deposit ratio (%) ⁽¹⁷⁾	108.0	102.0	104.2

	H1 2016 ⁽¹⁾	H1 2015 ⁽¹⁾	FY 2015
Liquidity			
Liquidity ratio (%) ⁽¹⁸⁾	18.5	17.9	25.8
Ratio of liquidity buffer eligible assets to liquidity balances (%) ⁽¹⁹⁾	95.9	94.5	96.2
Capital and leverage			
CET1 ratio (%) ⁽²⁰⁾	12.4	14.5	14.4
Total capital ratio (%) ⁽²¹⁾	15.5	16.4	18.0
Leverage ratio (%) ⁽²²⁾	7.6	8.7	7.9
Capital and leverage (including unverified profits)			
CET1 ratio (%) ⁽²⁰⁾	13.0	15.2	14.4
Total capital ratio (%) ⁽²¹⁾	16.1	17.2	18.0
Leverage ratio (%) ⁽²²⁾	8.0	9.2	7.9
Employees - Full time equivalents (period average)	556	489	514

Underlying income statements

H1 2016				
Adjustments				
Statutory accounts basis	IPO transaction costs ⁽²³⁾	IFRS 2 charge ⁽²⁴⁾	Corporate activity costs ⁽²⁵⁾	Underlying results

	(£m)			
Interest income and similar income	133.6	-	-	133.6
Interest expense and similar charges	(40.8)	-	1.0	(39.8)
Net interest income	92.8	-	1.0	93.8
Operating lease rentals	6.9	-	-	6.9
Other income	0.1	-	-	0.1
Depreciation on operating leases	(5.8)	-	-	(5.8)
Net income from operating leases	1.2	-	-	1.2
Fees and commission income	7.0	-	-	7.0
Fees and commission expense	(1.6)	-	-	(1.6)
Net fee and commission income	5.4	-	-	5.4
Fair value losses on financial instruments	(0.1)	-	-	(0.1)
Net operating income	99.3	-	1.0	100.3
Administrative expenses	(48.7)	-	1.8	(46.9)
Impairment losses on financial assets	(14.3)	-	-	(14.3)
Provisions for liabilities and charges	(1.1)	-	-	(1.1)
Profit before taxation	35.2	-	1.8	38.0
Income tax charge ⁽²⁶⁾	(9.6)	-	(0.5)	(10.4)
Profit for the period, attributable to owners	25.6	-	1.3	27.6

Underlying income statements (continued)

	H1 2015			
	Adjustments			
	Statutory accounts basis	IPO transaction costs ⁽²³⁾	IFRS 2 charge ⁽²⁴⁾	Corporate activity costs ⁽²⁵⁾
	(£m)			
Underlying results				
Interest income and similar income	100.3	-	-	100.3
Interest expense and similar charges	(30.4)	-	-	(30.4)
Net interest income	69.9	-	-	69.9
Operating lease rentals	7.6	-	-	7.6
Other income	0.9	-	-	0.9
Depreciation on operating leases	(6.2)	-	-	(6.2)
Net income from operating leases	2.3	-	-	2.3
Fees and commission income	6.1	-	-	6.1
Fees and commission expense	(1.2)	-	-	(1.2)
Net fee and commission income	4.9	-	-	4.9
Fair value losses on financial instruments	-	-	-	-
Net operating income	77.1	-	-	77.1
Administrative expenses	(46.2)	8.2	-	0.3
Impairment losses on financial assets	(4.6)	-	-	-
Provisions for liabilities and charges	(1.6)	-	-	-
Profit before taxation	24.7	8.2	-	0.3
Income tax charge ⁽²⁶⁾	(5.9)	(0.8)	-	(0.1)
Profit for the period, attributable to owners	18.8	7.4	-	0.2

Underlying income statements (continued)

	FY 2015				
	Adjustments				
	Statutory accounts basis	IPO transaction costs ⁽²³⁾	Corporate activity costs ⁽²⁵⁾	DTA revaluation ⁽²⁷⁾	Underlying results
	(£m)				
Interest income and similar income	216.9	-	-	-	216.9
Interest expense and similar charges	(63.8)	-	0.5	-	(63.3)
Net interest income	153.1	-	0.5	-	153.6
Operating lease rentals	14.9	-	-	-	14.9
Other income	1.1	-	-	-	1.1
Depreciation on operating leases	(12.2)	-	-	-	(12.2)
Net income from operating leases	3.8	-	-	-	3.8
Fees and commission income	13.1	-	-	-	13.1
Fees and commission expense	(2.8)	-	-	-	(2.8)
Net fee and commission income	10.3	-	-	-	10.3
Fair value losses on financial instruments	(0.3)	-	-	-	(0.3)
Net operating income	166.9	-	0.5	-	167.4
Administrative expenses	(88.7)	8.9	0.6	-	(79.2)
Impairment losses on financial assets	(6.5)	-	-	-	(6.5)
Provisions for liabilities and charges	(1.6)	-	-	-	(1.6)
Profit before taxation	70.1	8.9	1.1	-	80.1
Income tax charge ⁽²⁶⁾	(14.8)	(1.0)	(0.2)	-	(16.0)
Impact of DTA revaluation ⁽²⁷⁾	3.2	-	-	(3.2)	-
Profit for the period, attributable to owners	58.5	7.9	0.9	(3.2)	64.1

Divisional performance (on an underlying basis)^e

Property Finance

Provides mortgages for investors, businesses and personal customers. It serves professional landlords and property traders in residential and commercial asset classes across long term and shorter term finance and it lends to trading businesses to fund the acquisition and refinancing of business premises. The division also serves the needs of personal customers through the provision of mortgages secured by second charge on the main residence.

Property Finance	H1 2016	H1 2015	FY 2015
Assets			
Average principal employed (£m) ⁽²⁾	2,185.3	1,504.6	1,592.0
Loans and advances to customers (£m) ⁽³⁾	2,314.3	1,603.8	2,083.1
<i>Of which, Residential Lending</i>	<i>553.0</i>	<i>456.2</i>	<i>487.2</i>
Originations (£m)	495.0	416.0	831.8

Profitability

Gross asset yield (%) ⁽⁴⁾	6.7	7.1	7.2
Liability yield (%) ⁽⁵⁾	(2.4)	(2.4)	(2.4)
Net interest margin (%) ⁽⁶⁾	4.3	4.7	4.8
Management expenses ratio (%) ⁽⁷⁾	(0.7)	(0.9)	(0.9)
Cost of risk (%) ⁽⁸⁾	(0.06)	(0.05)	(0.06)
Return on lending assets before tax (%) ⁽⁹⁾	3.5	3.8	3.9

Asset quality

Ratio of impaired loans (%) ⁽¹³⁾	0.2	0.3	0.2
Ratio of past due over 90 days and impaired loans (%) ⁽¹⁴⁾	0.5	0.6	0.5
Forbearance cases ⁽¹⁵⁾	192	188	184
Forbearance principal employed (£m) ⁽¹⁶⁾	8.4	5.4	7.7

The division has a well-diversified product range serving property professionals in both residential and commercial investment markets, across short term and more traditional mortgage terms. Whilst the majority of the loans are to established landlords and property professionals, it also lends to well-established SME owner-occupiers. 86% of originations in H1 2016 were supported by residential property, 8% by mixed commercial and residential property and 6% by commercial property.

In H1 2016 the Property Finance division achieved strong growth in the loan book to £2.3 billion (H1 2015: £1.6 billion); continued its excellent loan performance with a H1 2016 gross asset yield⁽⁴⁾ of 6.7% (H1 2015: 7.1%); the drop was primarily a result of higher yielding back book being replaced with lower yielding front book. We continued to retain strong credit discipline in terms of loan to value and income coverage ratios.

Divisional performance (Continued)

Alongside the strong financial performance the division also achieved a number of other notable successes during H1 2016, including:

- A number of award successes, including "Best Secured Loan Provider" and "Best Commercial Mortgage Provider" at the annual Moneyfacts Awards, and "Bridging Lender of the Year" and "Best Secured Loans Lender" at the 2016 What Mortgage Awards.
- A successful implementation of the Mortgage Credit Directive as our second charge mortgage activity transitioned from consumer credit to mortgage conduct of business supervision. Our systems and general preparedness were well received by the intermediary market.
- Delivering a smooth customer service during the abnormal peak of activity in March created by the stamp duty surcharge deadline.
- Launching both electronic signature in our second charge mortgage processes and an online automated decision tool for our specialist BTL product range.
- Establishing our development finance team in line with our stated strategy to add this market to our range of specialist markets served.

Business Finance

Primarily finances UK SME businesses either for fixed 'hard' assets or working capital solutions through using 'asset based lending'. In addition, the division provides secured senior debt facilities to smaller UK financial institutions through wholesale and block facilities.

Business Finance	H1 2016	H1 2015	FY 2015
Assets			
Average principal employed (£m) ⁽²⁾	1,028.1	805.1	851.7
Loans and advances to customers (£m) ⁽³⁾	1,094.9	852.6	944.5
Originations (£m)	362.7	306.0	626.3

Profitability

Gross asset yield (%) ⁽⁴⁾	8.8	9.9	9.8
Liability yield (%) ⁽⁵⁾	(2.2)	(2.3)	(2.2)
Net interest margin (%) ⁽⁶⁾	6.7	7.6	7.5
Management expenses ratio (%) ⁽⁷⁾	(1.3)	(1.7)	(1.6)
Cost of risk (%) ⁽⁸⁾	(2.01)	(0.65)	(0.45)
Return on lending assets before tax (%) ⁽⁹⁾	3.3	5.3	5.5

Asset quality

Ratio of impaired loans (%) ⁽¹³⁾	1.8	0.8	0.7
Ratio of past due over 90 days and impaired loans (%) ⁽¹⁴⁾	2.3	0.8	0.9
Forbearance cases ⁽¹⁵⁾	187	38	126
Forbearance principal employed (£m) ⁽¹⁶⁾	18.1	3.6	9.6

Divisional performance (Continued)

In H1 2016, Business Finance achieved strong growth in the loan book of 28.4% to £1.1 billion (H1 2015: £0.9 billion). Gross asset yield⁽⁴⁾ decreased from 9.9% in H1 2015 to 8.8% in H1 2016, due primarily as a result of stronger originations in the Structured Finance portfolios, which are lower yielding but generate strong risk adjusted returns. The Asset Finance market continues to be subject to increasing competition, particularly as new lenders emerge in the space; however we continue to deliver exceptional customer service through speed and certainty of delivery, together with continuing to diversify our specialisms enabling us to maintain growth and strong returns in this market.

The awards received during H1 2016 are testament to our commitment to deliver excellent service to our customers. The four most notable awards received during the period are:

- Insider Dealmakers South East - Asset Based Lender of the year
- High Potential Business Awards UK - Asset Based Lender of the year
- ACQ Global Awards - Asset Based Lender of the year
- Business Money Intermediary Index - Winner (4th consecutive year)

As noted in the Trading Update released on 28 June 2016, Asset Finance was subject to irregularities in one of its offices resulting in the Group holding a provision of £9 million in H1 2016. This has resulted in the Business Finance cost of risk⁽⁸⁾ increasing from 0.7% in H1 2015 to 2.0% in H1 2016. Excluding the impairment charge relating to these irregularities, the cost of risk for Business Finance would be 0.4% for the period. The irregularities identified have now been rectified and the Group is confident that the upgraded risk management systems and controls will prevent the recurrence of such control breaches in the future.

The control breach has not changed our focus on our core customer segments and we continue to deliver on our mandate to provide finance to poorly served sectors. During H1 2016, we have launched product ranges into two adjacent specialist sectors, namely 'Marine Leisure' and 'Technology Finance'.

Divisional performance (Continued)**Consumer Lending**

The Consumer Lending subdivision provides unsecured loans for a variety of purposes, primarily focused on home improvements, holiday ownership, personal loans and certain retailers.

Consumer lending	H1 2016	H1 2015	FY 2015
------------------	---------	---------	---------

Assets

Average principal employed (£m) ⁽²⁾	370.1	241.5	269.1
Loans and advances to customers (£m) ⁽³⁾	414.1	260.3	333.4
Originations (£m)	135.0	89.9	226.8
Profitability			
Gross asset yield (%) ⁽⁴⁾	10.9	10.9	10.6
Liability yield (%) ⁽⁵⁾	(2.5)	(2.6)	(2.6)
Net interest margin (%) ⁽⁶⁾	8.4	8.3	8.1
Management expenses ratio (%) ⁽⁷⁾	(2.6)	(3.1)	(3.0)
Cost of risk (%) ⁽⁸⁾	(1.79)	(1.34)	(0.67)
Return on lending assets before tax (%) ⁽⁹⁾	4.0	3.8	4.4
Asset quality			
Ratio of impaired loans (%) ⁽¹³⁾	2.2	2.9	1.7
Ratio of past due over 90 days and impaired loans (%) ⁽¹⁴⁾	2.2	2.9	1.7
Forbearance cases ⁽¹⁵⁾	421	494	249
Forbearance principal employed (£m) ⁽¹⁶⁾	2.7	3.3	1.7

In H1 2016 the Consumer division achieved strong growth in the loan book to £0.4 billion (H1 2015: £0.3 billion). The Gross asset yield⁽⁴⁾ has proven stable as we have begun the marginal shift in the mix towards personal loans in line with our stated strategy (12% of the portfolio).

We continued to build strategic partnerships with key suppliers in the lending portfolio, strengthening our existing relationship with Anglian Windows, leveraging our industry expertise, flexibility and consultative approach to secure more long term, deeper relationships across the portfolio.

Divisional performance (Continued)

Savings

The Savings subdivision offers a range of savings account options.

	H1 2016	H1 2015	FY 2015
Deposit book (£m)	3,503.6	2,620.6	3,186.4
Retail Cost of funds (%) [*]	2.12%	2.25%	2.18%

* - Retail cost of funds is calculated as the interest expense on retail deposits divided by the monthly average retail deposit balance, annualised for the half year calculations.

We continue to build the deposits distribution capability with the addition of Primetime Retirement during H1 2016, enabling Shawbrook to provide savings solutions to customers within their pension wrapper.

During H1 2016 we invested in the digitising of the savings business from an application and servicing perspective. Over 85% of customer applications were made via the online application process (83% in 2015). 63% of customers are now registered and can service their accounts online (53% at the end of 2015).

Our product base has grown with the introduction of Easy Access during December 2015 resulting in origination of 7,250 accounts since launch and origination balances exceeding £230 million.

Notes to the Business Review and definitions of APMs

Percentages and certain amounts included in this Business Review 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 H1 2016 and H1 2015 based on the 182/181 calendar days between January and June.
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 a twelve month rolling KPI, calculated as underlying profit attributable to owners for the 12 months ending on the reporting period in question 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. Adjustments have been made to tangible equity to include net IPO proceeds of £82m across all pre-IPO periods for comparability purposes.
12. The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.
13. The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.
14. The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers and dividing the sum by total gross loans and advances to customers.
15. Forbearance cases is the number of cases for which the Group has granted concession to the borrower due to reasons relating to actual or apparent financial stress and relates to accounts subject to forbearance measures at reporting date.
16. Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.
17. The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.
18. The liquidity ratio is calculated as the liquidity reserve divided by customer deposits. The liquidity reserve comprises cash and balances at central banks (excluding mandatory balances held with central banks), loans and advances to banks, off balance sheet T-Bills but excludes additional available liquidity from pre-positioned assets.
19. 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.
20. The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets at the Group level. For the H1 2016 and H1 2015 ratios, half year retained earnings have been included. Unverified profits are excluded from the capital balances.
21. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets at the Group level. For the H1 2016 and H1 2015 ratios, half year retained earnings have been included.
22. The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets.
23. IPO costs include expenses incurred in 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement. A further £3.7m was recognised in equity
24. IFRS 2 charges recognised in relation to share based awards made to Steve Pateman upon joining the Group. This charge is a transfer from P&L to retained earnings.
25. H1 2016 corporate activity costs primarily relate to the interest expense incurred on the additional deposits raised ahead of the transfer of funds for the Property portfolio acquisition to be completed in July 2016. H1 2015 corporate activity costs include £0.3m of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. FY 2015 corporate activity costs include a final £0.6 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. In addition, costs incurred in relation to the acquisition of three asset portfolios (including the incremental costs of raising additional deposits to fund inorganic growth) have been excluded from the underlying results.
26. Income tax charge on underlying adjustments has been calculated at the implied corporation tax rate. Income tax charge on certain underlying adjustments has been assumed as £nil on the basis of being disallowable for tax purposes.
27. The impact of the DTA revaluation following the implementation of the 8% Corporation Tax surcharge for bank profits in excess of £25 million was a benefit of £3.2 million. Given the one-off nature of this benefit, we

have sought to adjust for it in our underlying results.

Risk Management Report

TOP AND EMERGING RISKS


The Group announced in 2016 that going forwards it would be organised around three lending divisions: Property Finance; Business Finance; and Consumer Lending. In respect of risk management the Group continues to invest in embedding its Risk Management Framework and Risk Appetite that were reported in the 2015 Annual Report and Accounts. The Group believes that following the UK vote to leave the EU it is appropriate to be cautious in its outlook and prepare for a softer economic environment. The Group's Risk Management Framework and governance plays a key role in monitoring the outlook and supporting the divisions in carefully setting out their preparedness plans.

The Group has reviewed its Top and Emerging Risks and concluded that a number of risks increased from 31 December 2015. The following table summarises the Top and Emerging Risks to which the Group is exposed, along with the Group's approach to mitigating these risks and the change in assessment since 31 December 2015. This summary should not be regarded as a complete statement of all potential risks faced by the Group but rather those top and emerging risks which the Group currently believes may have a significant impact on the Group's performance and future prospects. Further detail on the Top and Emerging Risks and the Group's approach to managing these risks is set out on page 40 of the 2015 Annual Report and Accounts which can be accessed through the Group's website at Shawbrook.co.uk.

The Group Risk function has continued its work on enhancing the overall Enterprise Risk Management Framework under an agreed 2016 Risk Plan. In broad terms the plan enhances the overall risk governance framework at the Group level and oversees the continued development of the 1st line of defence in each of the divisions. The progress against this plan is reported through the Enterprise Risk Management Committee (ERMC) and to Board and Board Risk Committee.

Key:  No Change  Risk Decreased  Risk Increased

Risk Type	Risk	Mitigation	Change
-----------	------	------------	--------

Competitive Environment	<p>The Group's financial position continues to improve with increasing profitability and strong capital ratios. However, rising competition and changing economic conditions in the UK, particularly in England where the majority of the Group's operations are based, could affect the Group's performance in a number of ways including:</p> <ul style="list-style-type: none"> - Rising competition could compress Group margins below current levels. - Increased funding costs resulting from changes in the Regulatory, Economic and Political environment at a macro level; - A reversal in the UK economy could drive higher impairments through increased defaults and/or reductions in collateral values. 	<p>The Group operates in specialist areas where management and staff have significant expertise and a deep understanding of customer needs to drive customer service and a long term relationship with its customers through the cycle.</p> <p>All loans are written only after thorough, bespoke underwriting to SMEs and consumers with a proven ability to repay and, in the main, sufficient security. Lending mandates are tiered to ensure independent review by a centralised first line credit team. Material loans over £300k in Property and Business Finance are approved by a centralised Credit Approval Committee that includes members from the Group Risk function.</p> <p>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 severe but plausible economic conditions.</p> <p>The Group also establishes a prudent balance sheet strategy with robust levels of capital, liquidity and a prudent funding structure.</p> <p>The Group monitors its chosen markets on a regular basis and regularly reviews adjacent markets where it has expertise and reviews opportunities for inorganic growth.</p>	<div style="text-align: center;">  </div> <p>There is clear uncertainty politically, economically and in terms of how the UK will separate from the EU. The Group believes that it is appropriate to be cautious in its outlook and prepare for a softer economic environment.</p>
--------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Pace of Regulatory Change	<p>The prudential and conduct regulatory regimes are subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.</p>	<p>The regulatory environment continues to evolve and change. The Group actively engages with regulators, industry bodies and advisors to actively engage in consultation processes.</p>	<div data-bbox="1187 107 1212 147" data-label="Image"></div> <p>The Financial Services Sector remains subject to significant scrutiny. The Group believes that the potential for regulatory change continues to increase.</p> <p>The FSB has suspended the increase in the Countercyclical Buffer to 50bps in March 2017 to at least June 2017. The projected normalised level of 100bps represents an additional capital requirement to the Bank given its concentration in the UK market place.</p> <p>The Group welcomes the Bank of England's consultation on underwriting standards in Buy to Let and is closely monitoring the development of the Buy to Let sector following tax changes announced by the Treasury in the Spring budget.</p>
Intermediary and Outsourcing	<p>The Group is a specialist lending and savings bank for SMEs and consumers. The specialist nature of some of its lending through Intermediaries and Brokers may mean that some customers find themselves with an increased risk of an unfavourable outcome. For the Group this may also lead to increased conduct related redress, additional fraud or credit risk impairments.</p>	<p>The Group works with carefully selected Intermediary and Broker partners who take on the role of advising SME and consumers. The Group recognises the importance of taking ownership for the lending it originates and continually undertakes a review of their performance in delivering good outcomes for SMEs and consumers. In addition, experienced underwriters perform thorough checks on each application.</p> <p>The Group continually reviews its risk management approach to intermediaries, brokers and outsource partners to reflect the regulatory environment that the Bank operates in.</p>	<div data-bbox="1187 1034 1212 1075" data-label="Image"></div> <p>The Group works with Intermediaries and Brokers to support its progressive increase in lending originations and to service its loan portfolio. The Group continues to develop its control environment to manage this risk within appetite and considers that the risk is stable.</p>

Pace, Scale of Change and Management Stretch	<p>The scale and pace of change could create delivery challenges and may lead to a disruption of the Group's plans and the delivery of its objectives.</p>	<p>The Group understands the need to manage change without disrupting the Group's operating environment and impacting customer service. These operational risks are managed through a strong focus on change governance and programme management disciplines and led by a dedicated Executive member. The risks are further mitigated by the Group's significant strengthening of the senior management team.</p> <p>The Group has a formal Operating Committee that is set-up to prioritise change and provide effective oversight of the change portfolio to ensure that requirements are delivered within budget and on time.</p> <p>The Group has detailed succession plans in place to identify emergency cover and forward plans for up to two years to mitigate management stretch.</p>	<div data-bbox="1187 85 1211 125" data-label="Image"></div> <p>The Group continues to manage effectively its change portfolio.</p>
Information Security	<p>The pace of technological development is changing the way in which SMEs and consumers want to engage with the Group leading to a number of risks:</p> <ul style="list-style-type: none"> - Increasing customer demand may exceed the Group's ability to provide highly reliable and widely available systems and services; - The ever evolving nature and scale of criminal activity increases the likelihood and severity of attacks on the Group's systems; and - Franchise value and customer trust could be significantly eroded by a sustained hack of the Group's systems leading to a diversion of funds or the theft of customer data. 	<p>The Group continually reviews its control environment for Information Security to reflect the evolving nature of the threats that the Bank is exposed to.</p> <p>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 detective controls and a programme of education and training.</p>	<div data-bbox="1187 882 1211 922" data-label="Image"></div> <p>The Group continues to invest in its IT infrastructure and control environment to reduce its exposure to cyber-attack and the impact of colleagues inadvertently exposing the Bank to information security risk.</p>

RISK GOVERNANCE

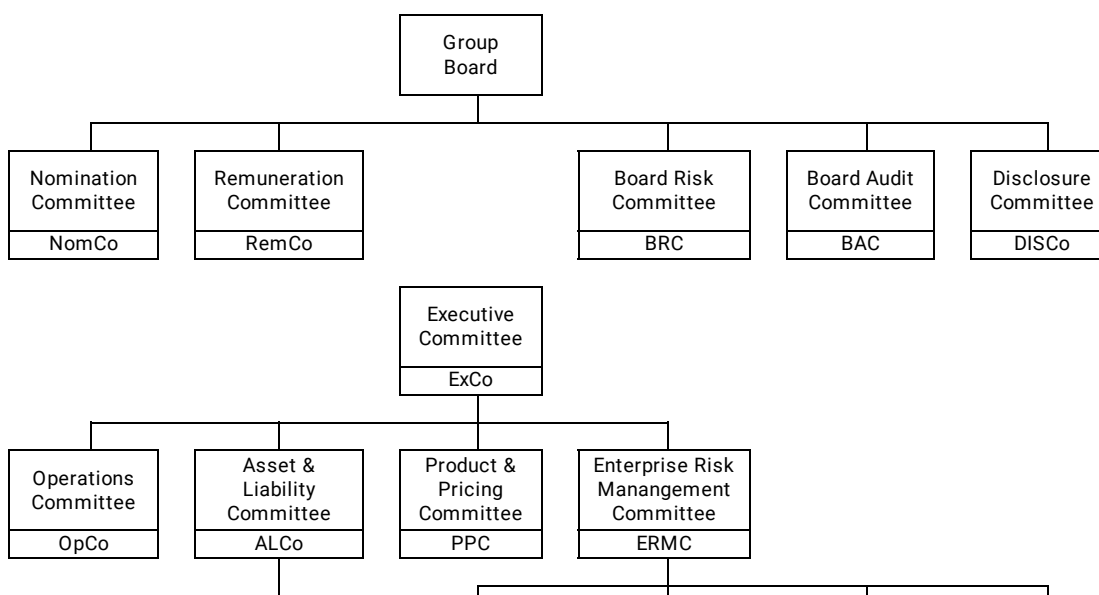
The Group has continued to invest in its risk management capabilities. In March 2016, the Group enhanced its risk governance arrangements with the inception of an

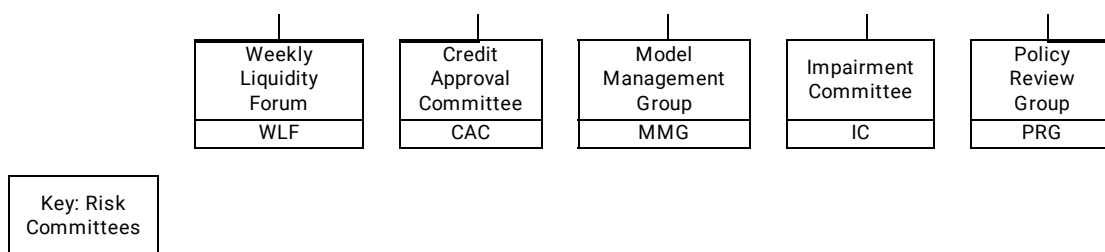
Enterprise Risk Management Committee (ERMC). The ERMC is chaired by the Chief Risk Officer and supports the Chief Executive in providing second line oversight of the Group's enterprise wide risk profile and its Key Risk Categories. The Bank's Key Risk Categories remain unchanged and are summarised on page 33 of the 2015 Annual Report and Accounts. The changes to the oversight of the Group's Key Risk Categories are shown in the table below. The Executive has also established a formal Operating Committee.

Risk Category	First Line	Board / Board Risk Committee Oversight		Board Audit Committee Third Line
		Second Line	Second Line	
Credit Risk	Credit Management in Business Areas & Treasury	Credit Risk	Enterprise Risk Management Committee (ERMC)	
Liquidity & Market Risk	Treasury	Market & Liquidity Risk & Finance	ALCo	
Operational Risk	All Business Divisions and functional areas	Operational Risk	Enterprise Risk Management Committee (ERMC)	Internal Audit
Conduct, Legal and Compliance Risk	All Business Divisions and functional areas	Conduct and Compliance Risk	Enterprise Risk Management Committee (ERMC)	
Strategic Risk	Exec Directors & Senior Management	Finance	ExCo	
Systems and Change Risk	IT/Change Management	Operational Risk	Operating Committee	

COMMITTEE STRUCTURE AND RISK RESPONSIBILITIES

The ERMC has simplified responsibility for oversight and certain approvals across the Bank's Management Committees and has replaced the Credit Committee and the Conduct and Operational Risk Committee. The existing Impairment Committee and the Credit Approval Committee now escalate to the ERMC. The ERMC has also established a number of groups and forums to support the CEO and CRO in the oversight of the Group's risk profile and embedding of the Group's risk management framework. These include the Model Management Group and the Policy Review Group. An abbreviated Board and Management Committee structure is set out below highlighting those Committees with primary risk-related duties.





Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:
 - a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

Daniel Rushbrook
Company Secretary
 27 July 2016

INDEPENDENT REVIEW REPORT TO SHAWBROOK GROUP PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises of the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Ellacott
For and on behalf of KPMG LLP
Chartered Accountants
 15 Canada Square
 London, E14 5GL
 27 July 2016

Consolidated Statement of Profit and Loss and Other Comprehensive Income

		6 Months ended 30 June 2016 (Unaudited) £m	6 Months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
	Note			
Interest income and similar income	3	133.6	100.3	216.9
Interest expense and similar charges	4	(40.8)	(30.4)	(63.8)
Net interest income		92.8	69.9	153.1
Operating lease rentals		6.9	7.6	14.9
Other income		0.1	0.9	1.1
Depreciation on operating leases		(5.8)	(6.2)	(12.2)
Net income from operating leases		1.2	2.3	3.8
Fee and commission income		7.0	6.1	13.1
Fee and commission expenses		(1.6)	(1.2)	(2.8)
Net fee and commission income		5.4	4.9	10.3
Fair value losses on financial instruments	10	(0.1)	-	(0.3)
Net operating income		99.3	77.1	166.9
Administrative expenses	5	(48.7)	(46.2)	(88.7)
Impairment losses on loans and advances to customers	9	(14.3)	(4.6)	(6.5)
Provision for liabilities and charges	12	(1.1)	(1.6)	(1.6)
Total operating expenses		(64.1)	(52.4)	(96.8)

Profit before taxation		35.2	24.7	70.1
Income tax charge	7	(9.6)	(5.9)	(11.6)
Profit after taxation, being total comprehensive income, attributable to owners		25.6	18.8	58.5

		6 Months ended 30 June 2016	6 Months ended 30 June 2015	Year ended 31 December 2015
Earnings per share	Note	Pence	Pence	Pence
Basic	21	10.2	8.0	24.1
Diluted	21	10.1	8.0	24.0

The notes on pages 29 to 51 are an integral part of these financial statements.

Consolidated Statement of Financial Position

	Note	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Assets				
Cash and balances at central banks		353.5	238.1	521.9
Loans and advances to banks		26.8	26.0	30.9
Loans and advances to customers	8	3,783.6	2,673.8	3,319.1
Derivative financial assets	10	7.8	2.1	2.8
Property, plant and equipment		44.9	47.5	48.6
Intangible assets	11	57.3	51.5	54.7
Deferred tax assets		14.4	10.6	14.1
Other assets		12.7	7.5	7.9
Total assets		4,301.0	3,057.1	4,000.0
Liabilities				
Customer deposits		3,503.6	2,620.6	3,186.4
Due to banks		48.8	39.0	39.9
Provisions for liabilities and charges	12	2.0	2.2	0.9
Derivative financial liabilities	10	0.6	-	-
Other liabilities		275.5	35.5	331.2
Subordinated debt	13	74.1	32.5	74.0
Total liabilities		3,904.6	2,729.8	3,632.4
Equity				
Share capital	14	2.5	2.5	2.5
Share premium account		87.3	87.3	87.3
Capital redemption reserve		183.1	183.1	183.1
Retained earnings		123.5	54.4	94.7
Total Equity		396.4	327.3	367.6
Total equity and liabilities		4,301.0	3,057.1	4,000.0

The notes on pages 29 to 51 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance as at 1 January 2015	185.3	1.3	-	32.1	218.7
<i>Total comprehensive income for the period:</i>					
Profit for the period	-	-	-	18.8	18.8
Total comprehensive income for the period	-	-	-	18.8	18.8
Share based payments	-	-	-	3.5	3.5
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Cancellation of shares	(183.1)	-	183.1	-	-
Issue of shares	0.3	89.7	-	-	90.0
Costs of share issue	-	(3.7)	-	-	(3.7)
Total contributions by and distributions to owners	(182.8)	86.0	183.1	-	86.3
Balance at 30 June 2015	2.5	87.3	183.1	54.4	327.3
<i>Total comprehensive income for the period:</i>					
Profit for the period	-	-	-	39.7	39.7
Total comprehensive income for the period	-	-	-	39.7	39.7
Share based payments	-	-	-	0.6	0.6
Balance at 31 December 2015	2.5	87.3	183.1	94.7	367.6
Balance as at 1 January 2016	2.5	87.3	183.1	94.7	367.6
Share based payments	-	-	-	3.2	3.2
<i>Total comprehensive income for the period:</i>					
Profit for the period	-	-	-	25.6	25.6
Total comprehensive income for the period	-	-	-	25.6	25.6
Balance as at 30 June 2016	2.5	87.3	183.1	123.5	396.4

The notes on pages 29 to 51 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Cash flows from operating activities:			
Profit for the period before taxation	35.2	24.7	70.1
Adjustments for non-cash items	25.5	16.4	27.1

Cash flows from operating activities before changes in operating assets and liabilities	60.7	41.1	97.2
Increase/decrease in operating assets and liabilities:			
Increase in mandatory balances held with central banks	(0.9)	(0.3)	(0.6)
Increase in loans and advances to customers	(477.5)	(393.4)	(1,040.3)
(Increase) / decrease in derivatives	(4.4)	1.6	0.9
Increase in other assets	(4.8)	(0.7)	(1.1)
Increase in customer deposits	317.2	199.6	765.4
Increase in provisions for liabilities and charges	1.1	1.6	0.3
(Decrease) / increase in other liabilities	(58.1)	(7.5)	287.2
	(227.4)	(199.1)	11.8
Tax paid	(7.5)	(6.0)	(13.8)
Net cash flow (used by) / generated from operating activities	(174.2)	(164.0)	95.2
Cash flows from investing activities			
Purchase of property, plant and equipment	(5.1)	(6.1)	(14.8)
Sale of property, plant and equipment	0.8	2.1	2.7
Purchase of intangible assets	(3.8)	(2.3)	(6.1)
Net cash used by investing activities	(8.1)	(6.3)	(18.2)
Cash flows from financing activities			
Increase / (decrease) in amounts due to banks	8.9	(2.0)	(1.1)
Repayment of subordinated debt	-	-	(33.7)
Issue of subordinated debt	-	-	74.0
Net proceeds from the issue of ordinary share capital	-	86.3	86.3
Net cash generated from financing activities	8.9	84.3	125.5
Net (decrease) / increase in cash and cash equivalents	(173.4)	(86.0)	202.5
Cash and cash equivalents at 1 January	550.5	348.0	348.0
Cash and cash equivalents at 30 June and 31 December	377.1	262.0	550.5

The notes on pages 29 to 51 are an integral part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation

1.1 Reporting entity

Shawbrook Group plc is domiciled in the UK. The Company's registered office is at Lutea House, Warley Hill Business Park, Brentwood, Essex, CM13 3BE. The condensed interim report of Shawbrook Group plc, for the six month period ended 30 June 2016, comprise the results of the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

1.2 Basis of accounting

This condensed interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

The Group's interim report have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published financial statements for the year ended 31 December 2015.

The comparative figures for the period ended 30 June 2015 have not been audited and are not the Group's statutory accounts for that period. The statutory accounts for the year ended 31 December 2015 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

This condensed set of financial statements is drawn up in accordance with the Companies Act 2006.

1.3 Accounting policies

The accounting policies and methods of computation are consistent with those set out in the Annual Report 2015 with the exception of Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' which was effective from 1 February 2016. The adoption of this Amendment did not have a material impact on these condensed financial statements.

1.4 Functional and presentation currency

The condensed set of financial statements is presented in Pounds Sterling, which is the Group's functional currency.

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

1.5 Going concern

The condensed set of financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for at least twelve months following the reporting date. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for at least twelve months following the reporting date, including a range of stressed scenarios, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for at least twelve months following the reporting date, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

1.6 Basis of consolidation

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

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. A Special Purpose Entity (SPE) is an entity which is formed for a single, well-defined and narrow, lawful purpose. The Group did not have any SPEs in the year. Accounting policies are applied consistently across the Group. These condensed financial statements consolidate the results of all subsidiary companies.

1.7 Critical accounting estimates and judgements

The preparation of a condensed set of financial statements in conformity with IFRS adopted in the EU requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of

the condensed set of financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may differ ultimately from those estimates.

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

Area of significant judgement or estimate	Note reference
Effective interest rate	3
Fair value of share based payments	6
Impairment of loans and advances	9
Goodwill	11

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2. Operating segments

The Group has four reportable operating segments as described below which are based on the Group's three lending divisions plus a Central segment which represents the Savings business, Central functions and shared central costs. These segments have changed since the 2015 Annual Report, in which the Group reported six operating segments (representative of five lending divisions rather than the current three). The reduced number of operating segments in the year reflects an consolidation of the Commercial Mortgages and Secured Lending divisions (together the Group's Property business), and of the Asset Finance and Business Credit divisions (together the Group's SME business).

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

- Property Finance: Provides mortgages for investors, businesses and personal customers. It serves professional landlords and property traders in residential and commercial asset classes across long term and shorter term finance. It lends to trading businesses to fund the acquisition and refinancing of business premises. The division serves the needs of personal customers through the provision of loans secured by second charge on the main residence and increasingly through specialist areas of first charge lending.
- Business Finance: Provides the following propositions:
 - o Asset Finance proposition includes: corporate finance assets (lending against principally wheeled assets, but also light aircraft, commercial marine vessels, yellow plant, machine tools and other assets with low rates of depreciation) and healthcare finance (operating leases for healthcare equipment to NHS trusts and finance leases or hire purchase agreements for private healthcare operators);
 - o Working capital solutions includes: Asset Based Lending to SMEs, secured mainly against invoices, to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancing, restructurings, management buy-outs and buy-ins and turnarounds and provides financing secured against hard assets of the borrower; and
 - o Structured Finance includes block discounting (lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a variety of different assets including vehicles, plant and equipment and property) and wholesale finance (lending to smaller specialist lenders secured against a pool of loan receivables).
- Consumer Finance: Provides unsecured loans for a variety of purposes, primarily focused on home improvements, holiday ownership, personal loans and certain retailers.
- Central and Savings: As well as common costs, Central includes the Group's Treasury function and Retail Savings business which are responsible for raising finance on behalf of the lending segments.

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

Operating segments (continued)

Six months ended 30 June 2016	Property £m	Business Finance £m	Consumer £m	Central £m	Total £m
Interest income and similar income	73.3	37.3	20.2	2.8	133.6
Interest expense and similar charges	(25.6)	(11.0)	(4.6)	0.4	(40.8)
Net interest income	47.7	26.3	15.6	3.2	92.8
Operating lease rentals	-	6.9	-	-	6.9
Other income	-	0.1	-	-	0.1
Depreciation on operating leases	-	(5.8)	-	-	(5.8)
Net income from operating leases	-	1.2	-	-	1.2
Fee and commission income	0.2	6.7	0.1	-	7.0
Fee and commission expense	(1.2)	(0.2)	(0.2)	-	(1.6)
Net fee and commission income	(1.0)	6.5	(0.1)	-	5.4
Fair value gains/(losses) on financial instruments	-	-	-	(0.1)	(0.1)
Net operating income	46.7	34.0	15.5	3.1	99.3
Administrative expenses	(7.8)	(6.7)	(4.8)	(29.4)	(48.7)
Impairment losses on loans and advances to customers	(0.7)	(10.3)	(3.3)	-	(14.3)
Provision for liabilities and charges	-	-	-	(1.1)	(1.1)
Statutory profit before tax	38.2	17.0	7.4	(27.4)	35.2
Underlying adjustments	-	-	-	2.8	2.8
Profit before tax on an underlying basis	38.2	17.0	7.4	(24.6)	38.0
Underlying income tax charge					(10.4)
Profit after taxation on an underlying basis					27.6
Assets	2,314.3	1,094.9	414.1	477.7	4,301.0
Liabilities	-	-	-	(3,904.6)	(3,904.6)
Net Assets/(Liabilities)	2,314.3	1,094.9	414.1	(3,426.9)	396.4

Operating segments (continued)

Six months ended 30 June 2015	Property £m	Business Finance £m	Consumer £m	Central £m	Total £m
Interest income and similar income	53.8	31.5	13.1	1.9	100.3
Interest expense and similar charges	(17.8)	(9.0)	(3.1)	(0.5)	(30.4)
Net interest income	36.0	22.5	10.0	1.4	69.9
Operating lease rentals	-	7.6	-	-	7.6
Other income	-	0.9	-	-	0.9

Depreciation on operating leases	-	(6.2)	-	-	(6.2)
Net income from operating leases	-	2.3	-	-	2.3
Fee and commission income	0.1	5.9	0.1	-	6.1
Fee and commission expense	(0.8)	(0.2)	(0.2)	-	(1.2)
Net fee and commission income	(0.7)	5.7	(0.1)	-	4.9
Net operating income	35.3	30.5	9.9	1.4	77.1
Administrative expenses	(6.8)	(6.8)	(3.7)	(28.9)	(46.2)
Impairment losses on loans and advances to customers	(0.4)	(2.6)	(1.6)	-	(4.6)
Provision for liabilities and charges	-	-	-	(1.6)	(1.6)
Statutory profit before tax	28.1	21.1	4.6	(29.1)	24.7
Underlying adjustments	-	-	-	8.5	8.5
Profit before tax on an underlying basis	28.1	21.1	4.6	(20.6)	33.2
Underlying income tax charge					(6.8)
Profit after taxation on an underlying basis					26.4
Assets	1,603.8	852.6	260.3	340.4	3,057.1
Liabilities	-	-	-	(2,729.8)	(2,729.8)
Net Assets/(Liabilities)	1,603.8	852.6	260.3	(2,389.4)	327.3

Operating segments (continued)

Year ended 31 December 2015	Property £m	Business Finance £m	Consumer £m	Central £m	Total £m
Interest income and similar income	116.4	67.2	28.9	4.4	216.9
Interest expense and similar charges	(37.9)	(18.9)	(6.9)	(0.1)	(63.8)
Net interest income	78.5	48.3	22.0	4.3	153.1
Operating lease rentals	-	14.9	-	-	14.9
Other income	-	1.1	-	-	1.1
Depreciation on operating leases	-	(12.2)	-	-	(12.2)
Net income from operating leases	-	3.8	-	-	3.8
Fee and commission income	0.3	12.6	0.2	-	13.1
Fee and commission expense	(1.8)	(0.5)	(0.5)	-	(2.8)
Net fee and commission income	(1.5)	12.1	(0.3)	-	10.3
Fair value gains/(losses) on financial instruments	-	-	-	(0.3)	(0.3)
Net operating income	77.0	64.2	21.7	4.0	166.9
Administrative expenses	(14.1)	(13.8)	(8.7)	(52.1)	(88.7)
Impairment losses on loans and advances to customers	(0.9)	(3.8)	(1.8)	-	(6.5)
Provision for liabilities and charges	-	-	-	(1.6)	(1.6)
Statutory profit before tax	62.0	46.6	11.2	(49.7)	70.1
Underlying adjustments	-	-	0.6	9.4	10.0
Profit before tax on an underlying basis	62.0	46.6	11.8	(40.3)	80.1
Underlying income tax charge					(12.8)
Profit after taxation on an underlying basis					67.3
Assets	2,083.1	944.5	333.4	639.0	4,000.0
Liabilities	-	-	-	(3,632.4)	(3,632.4)
Net Assets/(Liabilities)	2,083.1	944.5	333.4	(2,993.4)	367.6

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

3. Interest receivable and similar income

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Interest paid by customers	130.8	98.4	212.7
Interest received from derivative financial instruments	1.8	1.2	2.9
Interest on loans and advances to banks	1.0	0.7	1.3
Interest receivable and similar income	133.6	100.3	216.9

The interest income recognised during the period on loans impaired was £1.0m (2015: £1.0m). The Group did not capitalise any interest during the period.

The key assumptions applied by management in the EIR methodology remains materially unchanged from the 2015 Annual Report and Accounts. The key assumptions are behavioural life of the assets and the quantum of future early settlement fee income. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying value of loans which must be recognised in the Statement of Profit and Loss. Management has limited historical experience of customer behaviours due to the relative immaturity of the portfolios and therefore models expected behaviour based on market trends and experience. The actual behaviour of the portfolios are compared to the modelled behaviour on a quarterly basis and the modelled behaviours are adjusted if the modelled behaviour materially deviates from actual behaviour, with adjustments recognised in the Statement of Profit and Loss.

4. Interest expense and similar charges

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Interest paid to depositors	35.0	28.1	59.9
Interest on amounts due to banks	0.6	0.5	1.0
Interest on subordinated debt	3.2	1.7	2.9
Other interest	2.0	0.1	-
Interest expense and similar charges	40.8	30.4	63.8

5. Administrative expenses

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Staff costs	28.2	24.4	46.6
Loss on disposal of fixed assets	-	0.1	-

Depreciation (excluding operating lease assets)	1.2	0.7	1.5
Amortisation of intangible assets	1.2	0.3	0.9
Operating lease rentals - land and buildings	0.7	0.3	1.1
Other administrative expenses	17.4	20.4	38.6
Total Administrative expenses	48.7	46.2	88.7

6. Employee share-based payment transactions

The employee share-based payment charge comprises:

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Total Share-based payment charge			
Legacy share plan	-	3.4	3.4
SAYE	0.1	-	0.1
PSP 2015 tranche	0.8	-	0.6
PSP 2016 tranche	0.3	-	-
New hires	2.0	-	-
Total	3.2	3.4	4.1

Details of the existing share plans can be found in Note 10 of the 2015 Annual Report and Accounts.

There have been no changes to the share plans in the six months ended 30 June 2016 except for new awards granted under the 2016 Tranche of the Performance Share Plan and share awards to new hires.

Performance Share Plan - 2016 Tranche

On 9 March 2016 a number of 1,644,721 share awards were granted to a set of individuals. These individuals are entitled to acquire ordinary shares in Shawbrook Group plc, subject to performance conditions. The scheme is deemed to be an equity settled scheme.

The performance conditions for the 2016 Tranche relate to the growth in Total Shareholder Return ("TSR") over the vesting period for 20% of each award, the Net Promoter Score ("NPS") at the date of vesting for 20% of each award, the Risk Performance over the vesting period for 20% of each award and the annual compound growth in the Earnings per Share ("EPS") over the vesting period for 40% of each award. The outcome of the performance

Employee share-based payment transactions (continued)

conditions, as assessed by the Remuneration Committee, will determine the vesting outcome of the awards and the shares available for exercise.

The performance condition relating to the TSR condition is measured in relation to the ranking of the Group's TSR within a comparator group of companies selected by the Remuneration Committee.

The fair value of the shares in the EPS, NPS and Risk Performance awards is based on the share price at the date of the grant discounted for any expected dividends over the vesting period. The dividend adjusted fair value of these awards is £2.63.

The fair value of the shares in the TSR award is calculated using a Monte Carlo model with 100,000 simulations. Set out below is a summary of the key data and assumptions used to calculate the fair value of the TSR award:

Assumptions	
Share Price at grant date	£2.87
Volatility	30% p.a.
Dividend Yield	2.83% p.a.

The fair value of the shares in the TSR award is £1.46.

7. Taxation

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Recognised in the Income Statement			
Current tax:			
Current year	9.9	6.3	15.8
Adjustment in respect of prior periods	-	-	0.1
Total current tax	9.9	6.3	15.9
Deferred tax:			
Origination and reversal of temporary difference	(0.3)	(0.4)	(3.9)
Adjustment in respect of prior periods	-	-	(0.4)
Total deferred tax	(0.3)	(0.4)	(4.3)
Total tax charge	9.6	5.9	11.6

The effective tax rate for the period is 27.3% (six months ended 30 June 2015: 23.9% and year ended 31 December 2015: 16.5%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before taxation for the six month period. The increase in the effective tax rate is mainly due to the imposed 8% Bank Corporate Tax surcharge applicable to accounting periods beginning on or after 01 January 2016.

Taxation (continued)

Offsetting the effect of the Bank Corporate Tax surcharge, a reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax assets at 30 June 2016 and 31 December 2015 have been calculated based on an aggregation of the rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge.

8. Loans and advances to customers

Loans and advances to customers include those classified as loans and advances, finance leases and instalment credit advances as summarised below:

	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Loan receivables	3,359.1	2,202.7	2,873.0
Finance lease receivables	103.5	114.0	114.3
Instalment credit receivables	321.0	357.1	331.8
Total loans and advances to customers	3,783.6	2,673.8	3,319.1

9. Impairment provisions on loans and advances to customers

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

	6 months ended 30 June 2016	6 months ended 30 June 2015	Year ended 31 December
--	-----------------------------------	-----------------------------------	---------------------------

	(Unaudited) £m	(Unaudited) £m	2015 (Audited) £m
At 1 January	13.5	11.1	11.1
Charge for impairment losses	14.3	4.6	6.5
Provisions utilised	(2.8)	(0.9)	(4.1)
At 30 June and 31 December	25.0	14.8	13.5
Analysis of impairment type:			
Loan receivables	12.4	12.2	10.5
Finance lease receivables	10.0	1.4	2.0
Instalment credit receivables	2.6	1.2	1.0
At 30 June and 31 December	25.0	14.8	13.5

The key assumptions, being the emergence periods, cost of risk and roll rates, are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. The key assumptions remain materially unchanged from the 2015 Annual Report and Accounts.

10. Derivative financial instruments

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

	Notional Amount £m	Fair Value of assets £m	Fair Value of liabilities £m
Interest rate swaps:			
At 30 June 2015	300.0	2.1	-
At 31 December 2015	535.0	2.8	-
At 30 June 2016	555.0	7.8	(0.6)

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

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
Gain/(Loss) on derivative financial instrument	4.3	1.6	(0.9)
Fair value gain/(loss) on hedged risk	(4.4)	(1.6)	0.6
Fair value gain/(loss) on financial instruments	(0.1)	-	(0.3)

Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value and amounts to £6.6m (30 June 2015: £2.8m; 31 December 2015: £2.1m).

11. Intangible assets

	Goodwill £m	Computer software £m	Total £m
At 1 January 2016	44.8	9.9	54.7
Additions during the year	-	3.8	3.8
Amortised in the year	-	(1.2)	(1.2)
At 30 June 2016	44.8	12.5	57.3

	Goodwill £m	Computer software £m	Total £m
At 1 January 2015	44.8	4.7	49.5
Additions during the year	-	6.1	6.1
Amortised in the year	-	(0.9)	(0.9)
At 31 December 2015	44.8	9.9	54.7

Intangible assets (Continued)

	Goodwill £m	Computer software £m	Total £m
At 1 January 2015	44.8	4.7	49.5
Additions during the year	-	2.3	2.3
Amortised in the year	-	(0.3)	(0.3)
At 30 June 2015	44.8	6.7	51.5

Impairment testing for CGUs containing goodwill

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

	30 June 2016 (Unaudited) £m	31 December 2015 (Audited) £m	30 June 2015 (Unaudited) £m
Property Finance	9.0	9.0	9.0
Business Finance	34.7	34.7	34.7
Consumer	1.1	1.1	1.1
At 31 December	44.8	44.8	44.8

The recoverable amounts of the CGUs have been calculated based on their value in use ('VIU'), determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2016 (2015: £nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values. The key assumptions used in the calculation of value in use were as follows:

	30 June 2016
Pre-tax discount rate	% 14.61
Terminal value growth rate	% 2.50
Cash flow period (Years)	5.00

Intangible assets (Continued)

Following on the consolidation of the business units as disclosed in Note 2 - Operating Segments, the goodwill has been re-allocated to three CGU's, namely Property Finance, Business Finance and Consumer. Goodwill impairment testing has been performed on both the consolidated and the unconsolidated CGU Level (as disclosed in the 2015 Annual Report and Accounts) and no impairment losses were recognised because the recoverable amounts of the CGU's were determined to be higher than the carrying values.

Management's judgement in estimating the cash flows of a CGU: Five years of cash flows were included in the discounted cash flow model, which is based on a Board approved plan. A long-term growth rate into perpetuity has been determined as the long term compound annual profit before tax growth rate estimated by Management.

The Dividend Discount Model ('DDM') is used to calculate the recoverable amount of future cash flows. The DDM discounts future cash flows (post-tax profits) generated by the CGU, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGU loan books through higher regulatory capital requirements. Forecasted post-tax profits were based on

expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

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

Sensitivity testing

The Group has undertaken sensitivity testing on inputs to the calculation of the recoverable value of the CGUs, as an additional measure to test for indicators of impairment of goodwill. The sensitivity of both the discount factor used and forecast cash flows was tested, with the resulting conclusion that there is sufficient headroom in the CGUs' recoverable amounts over their carrying values to show no indicators of impairment.

12. Provisions for liabilities and charges

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
At 1 January	0.9	0.6	0.6
Provisions utilised	-	-	(1.3)
Provisions made during the year	1.1	1.6	1.6
At 30 June and 31 December	2.0	2.2	0.9

Provisions for liabilities and charges (Continued)

Financial Services Compensation Scheme

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

13. Subordinated debt

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited) £m
At 1 January	74.0	30.8	30.8
Issued in year	-	-	74.0
Repaid in year	(3.1)	-	(33.7)
Interest expense	3.2	1.7	2.9
At 30 June and 31 December	74.1	32.5	74.0

14. Share capital

	30 June 2016 No.	30 June 2015 No.	31 December 2015 No.
Ordinary £0.01 shares	250,500,000	250,000,000	250,500,000

	Total No.	Total £
On issue at 30 June 2015	250,000,000	2,500,000
Issued during the period	500,000	5,000
On issue at 31 December 2015	250,500,000	2,505,000
Issued during the period	-	-
On issue at 30 June 2016	250,500,000	2,505,000

Each Ordinary share of £0.01 has full voting, dividend and capital distribution rights, including on a winding up, and does not have any rights of redemption. Par value is £0.01 per share.

15. Financial instruments

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

	30 June 2016 (Unaudited) £m	31 December 2015 (Audited) £m	30 June 2015 (Unaudited) £m
Financial assets			
Derivative financial assets	7.8	2.1	2.8
Financial liabilities			
Derivative financial liabilities	(0.6)	-	-

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

	Loans and receivables £m	Other liabilities at amortised cost £m	Total Carrying amount £m	Fair Value £m
At 30 June 2016				
Cash and balances at central banks	353.5	-	353.5	353.5
Loans and advances to banks	26.8	-	26.8	26.8
Loans and advances to customers	3,783.6	-	3,783.6	3,845.4
	4,163.9	-	4,163.9	4,225.7
Customer deposits	-	3,503.6	3,503.6	3,510.0
Due to banks	-	48.8	48.8	48.8
Subordinated debt	-	74.1	74.1	74.1
	-	3,626.5	3,626.5	3,632.9
At 30 June 2015				
Cash and balances at central banks	238.1	-	238.1	238.1
Loans and advances to banks	26.0	-	26.0	26.0
Loans and advances to customers	2,673.8	-	2,673.8	2,710.9
	2,937.9	-	2,937.9	2,975.0
Customer deposits	-	2,620.6	2,620.6	2,634.8
Due to banks	-	39.0	39.0	39.0
Subordinated debt	-	32.5	32.5	32.5
	-	2,692.1	2,692.1	2,706.3
At 31 December 2015				
Cash and balances at central banks	521.9	-	521.9	521.9
Loans and advances to banks	30.9	-	30.9	30.9

Loans and advances to customers	3,319.1	-	3,319.1	3,351.0
	3,871.9	-	3,871.9	3,903.8
Customer deposits	-	3,186.4	3,186.4	3,189.7
Due to banks	-	39.9	39.9	39.9
Subordinated debt	-	74.0	74.0	74.0
	-	3,300.3	3,300.3	3,303.6

Financial instruments (Continued)

The fair values disclosed are an estimate (in line with the methodology stated on pages 115-116 of the 2015 Annual Report and Accounts) but do not represent an agreed purchase price between parties, who may well want to make adjustments for the longer term impacts of the UK economy following the EU referendum and wider Banking Regulations.

16. Risk management

Details of the risks to which the business is exposed are set out in Note 30 of the 2015 Annual Report and in the Risk Management Report to this Interim Report (pages 17 to 22).

Customer risk

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

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

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

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

As at 30 June 2016, the number of forbearance arrangements in place was 800 (31 December 2015: 559 and 30 June 2015: 720), the carrying value of which was £29.2m (31 December 2015: £19.0m and 30 June 2015: £12.3m) against which impairment provisions of £4.3m (31 December 2015: £2.6m and 30 June 2015: £2.9m) were held.

Forbearance as at 30 June 2016	Number	Capital balances £m	Provisions £m	Coverage %
Property	192	8.4	0.6	7.1
Consumer	421	2.7	1.8	66.7
Business Finance	187	18.1	1.9	10.5
Total	800	29.2	4.3	14.7

Customer risk (continued)

Forbearance as at 31 December 2015	Number	Capital balances £m	Provisions £m	Coverage %
-------------------------------------------	---------------	------------------------------------	--------------------------	-----------------------

Property	184	7.7	0.6	7.8
Consumer	249	1.7	1.1	64.7
Business Finance	126	9.6	0.9	9.4
Total	559	19.0	2.6	13.7

		Capital balances	Provisions	Coverage
Forbearance as at 30 June 2015	Number	£m	£m	%
Property	188	5.4	0.2	3.7
Consumer	494	3.3	2.4	72.7
Business Finance	38	3.6	0.3	8.3
Total	720	12.3	2.9	23.6

There were 5 property repossessions during the six months to 30 June 2016 (year to 31 December 2015: 5)

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

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

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

Customer risk (continued)

	Property	Business Finance	Consumer	Total
30 June 2016	£m	£m	£m	£m
Neither past due nor impaired	2,276.2	1,034.2	412.2	3,722.6
Past due but not impaired:				
Up to 30 days	5.2	4.9	-	10.1
30-60 days	19.7	4.4	-	24.1
60-90 days	5.1	0.9	-	6.0
Over 90 days	8.1	5.4	-	13.5
Total past due but not impaired	38.1	15.6	-	53.7
Impaired	3.9	19.3	9.1	32.3
	2,318.2	1,069.1	421.3	3,808.6
Less: allowances for impairment losses	(3.9)	(13.9)	(7.2)	(25.0)
Net loan receivables	2,314.3	1,055.2	414.1	3,783.6
	Property	Business Finance	Consumer	Total

31 December 2015	£m	£m	£m	£m
Neither past due nor impaired	2,055.2	873.7	331.8	3,260.7
Past due but not impaired:				
Up to 30 days	2.6	19.0	-	21.6
30-60 days	14.7	5.5	-	20.2
60-90 days	3.6	1.5	-	5.1
Over 90 days	5.5	2.4	-	7.9
Total past due but not impaired	26.4	28.4	-	54.8
Impaired	5.0	6.2	5.9	17.1
	2,086.6	908.3	337.7	3,332.6
Less: allowances for impairment losses	(3.5)	(5.7)	(4.3)	(13.5)
Net loan receivables	2,083.1	902.6	333.4	3,319.1

Customer risk (continued)

	Property	Business Finance	Consumer	Total
30 June 2015	£m	£m	£m	£m
Neither past due nor impaired	1,579.8	800.7	259.8	2,640.3
Past due but not impaired:				
Up to 30 days	5.4	5.0	-	10.4
30-60 days	9.0	1.4	-	10.4
60-90 days	3.4	0.4	-	3.8
Over 90 days	4.3	0.3	-	4.6
Total past due but not impaired	22.1	7.1	-	29.2
Impaired	5.1	6.3	7.7	19.1
	1,607.0	814.1	267.5	2,688.6
Less: allowances for impairment losses	(3.2)	(4.4)	(7.2)	(14.8)
Net loan receivables	1,603.8	809.7	260.3	2,673.8

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

	Property	Business Finance	Consumer	Total
30 June 2016	£m	£m	£m	£m
East Anglia	82.0	77.9	21.2	181.1
East Midlands	60.6	32.1	34.0	126.7
Greater London	872.3	195.1	40.2	1,107.6
Guernsey/Jersey/Isle of Man	3.5	0.5	0.1	4.1
North East	30.2	14.4	22.7	67.3
North West	211.8	147.8	47.6	407.2

Northern Ireland	2.3	1.9	0.6	4.8
Scotland	115.1	115.8	56.0	286.9
South East	505.3	204.2	70.4	779.9
South West	177.2	94.4	32.9	304.5
Wales	52.4	69.8	15.9	138.1
West Midlands	97.1	64.4	43.8	205.3
Yorkshire/Humberside	108.4	50.8	35.9	195.1
	2,318.2	1,069.1	421.3	3,808.6

Customer risk (continued)

	Property	Business Finance	Consumer	Total
31 December 2015	£m	£m	£m	£m
East Anglia	77.2	59.8	17.8	154.8
East Midlands	55.9	28.7	27.7	112.3
Greater London	780.4	166.9	30.2	977.5
Guernsey/Jersey/Isle of Man	4.5	0.6	-	5.1
North East	25.3	12.3	19.3	56.9
North West	180.5	117.5	36.2	334.2
Northern Ireland	2.5	2.1	0.5	5.1
Scotland	108.2	118.5	46.5	273.2
South East	460.3	174.9	55.5	690.7
South West	167.5	63.2	26.9	257.6
Wales	39.7	52.6	12.8	105.1
West Midlands	87.1	50.8	36.9	174.8
Yorkshire/Humberside	97.5	60.4	27.4	185.3
	2,086.6	908.3	337.7	3,332.6

	Property	Business Finance	Consumer	Total
30 June 2015	£m	£m	£m	£m
East Anglia	58.2	66.8	11.4	136.4
East Midlands	44.8	28.9	22.6	96.3
Greater London	608.2	148.8	22.9	779.9
Guernsey/Jersey/Isle of Man	3.2	0.7	-	3.9
North East	20.5	10.0	16.1	46.6
North West	133.4	114.7	28.5	276.6
Northern Ireland	1.7	2.8	0.4	4.9
Scotland	80.6	97.9	39.6	218.1
South East	359.5	166.2	42.5	568.2
South West	123.4	61.6	21.5	206.5
Wales	32.9	28.9	9.7	71.5
West Midlands	67.2	56.2	31.2	154.6
Yorkshire/Humberside	73.4	30.6	21.1	125.1
	1,607.0	814.1	267.5	2,688.6

17. Capital

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

	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Share capital	2.5	2.5	2.5
Retained earnings (Verified)	108.3	41.1	94.7
Share premium account	87.3	87.3	87.3
Capital redemption reserve	183.1	183.1	183.1
Intangible assets	(57.3)	(51.5)	(54.7)
Common equity tier 1 capital	323.9	262.5	312.9
Subordinated debt	74.1	32.5	74.0
Collective impairment allowance	5.7	3.0	4.6
Tier 2 capital	79.8	35.5	78.6
Total regulatory capital	403.7	298.0	391.5

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

	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Regulatory capital	403.7	298.0	391.5
Subordinated debt	(74.1)	(32.5)	(74.0)
Collective impairment allowance	(5.7)	(3.0)	(4.6)
Intangible assets	57.3	51.5	54.7
Unverified retained earnings	15.2	13.3	-
Total equity	396.4	327.3	367.6

18. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2016 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 31 December 2015 can be found in the 2015 Annual Report.

19. Capital commitments

The Group has [capital commitments](#) totalling £0.7m at 30 June 2016 (31 December 2015: £0.9m and 30 June 2015: £1.2m).

20. Contingent liabilities

Financial guarantee contracts

During 2015 the Group entered into a financial guarantee contract to the amount of £2.5m. This contract is a continuous obligation which may be terminated by the Group on giving three months' written notice. The contract is fully collateralised through a first fixed charge over a blocked deposit account to the amount of £2.5m.

Contingent liabilities

Part of the Group's business is regulated by the Consumer Credit Act ("CCA"), which contains very detailed and highly technical requirements. The Group continues to commission external reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas

of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA and other consumer regulations is likely, there is a risk that the eventual outcome may differ.

The Group's Consumer Division is exposed to risk under Section 75 of the CCA, in relation to any misrepresentations or breaches of contract by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Bank. While the Group would have recourse to the supplier in the event of any such liability, if the supplier becomes insolvent then that recourse would have limited value. During 2016 at least one supplier has become insolvent and therefore the group may have an increased exposure to customer complaints in relation to such suppliers although any such exposure is not considered to be material.

Further information regarding the contingent liabilities of the Group can be found in the 2015 Annual Report in Note 34. During the six months to 30 June 2016, there have been no material changes to these contingent liabilities.

21. Earnings per share

IAS 33 requires that if the number of ordinary shares increases as a result of a capitalisation, bonus issue or share split then the calculation of basic and diluted earnings per share shall be adjusted retrospectively.

	6 months ended 30 June 2016 (Unaudited) Pence	6 months ended 30 June 2015 (Unaudited) Pence	Year ended 31 December 2015 (Audited) Pence
Earnings per share			
Basic	10.2	8.0	24.1
Diluted	10.1	8.0	24.0

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, excluding own shares held in employee benefit trusts.

Diluted EPS amounts are calculated by adjusting the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares outstanding for the effects of all the dilutive potential ordinary shares into ordinary shares, which comprise share options granted to employees.

Earnings per share (Continued)

There are no discontinued operations during the period (2015: £nil).

Basic EPS computations are based on profit attributable to ordinary equity holders of the parent of £25.6m (six months to 30 June 2015: £18.8m and year to 31 December 2015: £58.5m) and weighted number of ordinary shares of 250.5m (30 June 2015: 234.5m and 31 December 2015: 242.3m).

Diluted EPS computations are based on profit attributable to ordinary equity holders of the parent of £25.6m (six months to 30 June 2015: £18.8m and year to 31 December 2015: £58.5m) and weighted number of ordinary shares of 254.4m (30 June 2015: 234.5m and 31 December 2015: 243.9m).

The following reflects the income and share data used in the basic and diluted EPS computations:

	6 months ended 30 June 2016 (Unaudited) £m	6 months ended 30 June 2015 (Unaudited) £m	Year ended 31 December 2015 (Audited)* £m
Profit attributable to ordinary equity holders of the parent:	25.6	18.8	58.5
Profit attributable to ordinary equity holders of the parent for basic earnings	25.6	18.8	58.5

	(Unaudited) Millions	(Unaudited) Millions	2015 (Audited) Millions
Weighted average number of ordinary shares for basic EPS	250.5	234.5	242.3
Weighted average number of ordinary shares adjusted for the effect of dilution	254.4	234.5	243.9

* The diluted EPS at 31 December 2015 has been restated to include the effect of options under IFRS 2

ENQUIRIES

Instinctif Partners

Mike Davies / Giles Stewart

020 7457 2051 / 020 7457 7938

mike.davies@instinctif.com / giles.stewart@instinctif.com

Shawbrook Group plc

Richard Armstrong

07809 493 158

Richard.armstrong@shawbrook.co.uk

An analyst presentation will be held at 11:00am on 27 July 2016 at Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. The analyst presentation will also be available by webcast at 11:00am. The access details are as follows:

Webcast

To access the webcast please click on the following link <http://webcast.instinctif.tv/795-1286-17322/en>

^a We present all underlying items, against which we manage the business, equally and prominently alongside the relevant statutory measure. Please refer to the "Basis of Preparation" section for a detailed reconciliation of statutory results to underlying results.

^b The FSCS Levy was previously excluded from underlying performance to assist half year comparisons, however it is no longer excluded in order to simplify our disclosures. The H1 2015 results have been adjusted to reflect the inclusion of the H1 2015 FSCS Levy. The reported Underlying Profit before Tax at H1 2015 was £34.8 million.

^c The H1 2015 Underlying KPIs have been restated to include the FSCS Levy of £1.6 million in the H1 2015 Underlying Profit before Tax.

^d H1 2015 KPIs calculated on Underlying Profit before Tax have been restated to take into account the inclusion of the FSCS Levy of £1.6 million in the Underlying Results.

^e All assumptions and calculations relating to the performance measures disclosed in the divisional performance reviews are consistent with those used in the Business Review but applied at a divisional level.

This information is provided by RNS
The company news service from the London Stock Exchange

END

IR PGUPCMUPQUAM