Shawbrook Bank

# Shawbrook Group plc

## Interim Financial Report
for the six months ended 30 June 2019

Proudly different.

## Contents



**Important disclaimer**
Certain information contained in this Interim Financial Report, 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 Interim Financial Report 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.

## Interim Management Report

Shawbrook Group plc ('Shawbrook' or 'the Group') today announces continued strong financial performance for the six months ended 30 June 2019.

## H1 2019 key highlights

| | | |
|---|---|---|
| **How we have delivered against our strategic pillars:** | **Achieve strong risk adjusted returns**<br><br>6.5% Gross asset yield | **Enhance customer focus**<br><br>87% Customer satisfaction*<br>*feedback from our 2018 Charterhouse survey |
| **Progressively increase originations**<br><br>10% increase in loan book to £6.5 billion<br>(since 31 December 2018) | **Maintain excellent credit quality**<br><br>61bps Cost of risk | **Maintain conservative foundations**<br><br>11.4% CET1<br>15.5% Total capital ratio |

**Commenting on the results, Chief Executive Officer Ian Cowie said:**

The Group has continued to make good progress in the first six months of the year. Achieving a solid set of financial results for the period, we have seen the Group's loan book grow by 10% in the first half of 2019 to £6.5 billion (22% since 30 June 2018). The Group continues to invest in its business platforms, new products and enhanced customer processes to support our future ambition to be recognised as the modern Specialist SME Lender of Choice.

The Group's continued progression was underpinned by increased new lending volumes, as we continued to build our customer portfolio and grow our specialist propositions in our chosen markets.

In May 2019, Shawbrook successfully completed its inaugural securitisation. The residential mortgage-backed security (RMBS) transaction uses our Buy-To-Let collateral and diversifies our funding strategy, positioning us well for the future, supporting our growth ambitions. The positive investor support received demonstrates the overarching market confidence held in Shawbrook.

The Group also continued to build its capacity and capability throughout the business. In H1 2019, we invested heavily in technology across the business to support greater engagement with our customers and partners. As a result, the Group's cost to income ratio remained stable, at 48.8%[1] . Additionally, the impact of the H1 2018 £10 million insurance recovery, stemming from the controls breach identified in our Business Finance division in 2016, impacts the direct year on year comparison of the impairment charge. The Group's impairments are also impacted by IFRS 9, resulting in an elevated charge on our Consumer Lending business.

Alongside the financial progress demonstrated over the past six months, we also took the time to review the direction of the business to ensure we are in the best position to succeed in the SME markets we know well. We continue to take steps to simplify the business and make ourselves easier to do business with for our customers. In doing so, the Board is considering its strategic options regarding our Consumer Lending business.

Against the backdrop of continued macro uncertainties, we remain cautiously optimistic given our strong market position and encouraging business pipeline. Moving into the second half of 2019, I am confident that we will continue to be well positioned to build on the positive progress already made this year and I look forward to continuing to build a specialist business which best serves the needs of our customers.

[1] Comparatives for the six months ended 30 June 2018 were restated to reclass £0.3 million of expected credit losses on loan commitments in the statement of profit and loss, from impairment losses on financial assets to provisions for liabilities and charges. As a result of this restatement, the Group's cost to income ratio was restated from 48.6% to 48.9%.

## Financial and Business Review

### Financial performance summary

The following table provides a summary of the Group's statement of profit and loss:

| For the six months ended 30 June (Unaudited) | | 2019 £m | | 2018 £m |
|---|---|---|---|---|
| Interest income, net income from operating leases, net fee and commission income, and net gains on financial instruments | | **196.6** | | 171.2 |
| Interest expense and similar charges | | **(51.8)** | | (40.4) |
| **Net operating income** | | **144.8** | | 130.8 |
| | | | | |
| Administrative expenses | | **(70.1)** | | (61.4) |
| Impairment losses on financial assets[1,2] | | | | |
| - *Impairment losses on financial assets (excluding insurance recovery)* | ***(18.4)*** | | *(13.8)* | |
| - *Insurance recovery* | ***-*** | | *10.0* | |
| | | **(18.4)** | | (3.8) |
| Provisions for liabilities and charges[2] | | **(0.6)** | | (2.5) |
| **Total operating expenses** | | **(89.1)** | | (67.7) |
| | | | | |
| Share of results of associates | | **(0.1)** | | - |
| | | | | |
| **Profit before tax** | | **55.6** | | 63.1 |
| Tax[3] | | **(13.5)** | | (15.1) |
| **Profit after tax, attributable to owners[3]** | | **42.1** | | 48.0 |

**Key metrics**

The below metrics are defined on page 41. Metrics in the below table have been annualised based on the 181 calendar days between January and June.

| For the six months ended 30 June (Unaudited) | 2019 % | 2018 % Unadjusted[4] | 2018 % Adjusted[4] |
|---|---|---|---|
| Gross asset yield | **6.5** | 6.8 | 6.8 |
| Liability yield | **(1.7)** | (1.6) | (1.6) |
| Net interest margin | **4.8** | 5.2 | 5.2 |
| Management expenses ratio | **(2.3)** | (2.5) | (2.5) |
| Cost of risk[2] | **(0.61)** | (0.15) | (0.55) |
| Return on lending assets before tax | **1.8** | 2.5 | 2.1 |
| Return on lending assets after tax | **1.4** | 1.9 | 1.6 |
| Return on tangible equity | **14.7** | 19.5 | 16.0 |
| Cost to income ratio[2] | **48.8** | 48.9 | 48.9 |

[1] During the six months ended 30 June 2018, the Group received £10.0 million from the Group's insurance claim in respect of the controls breach identified in the Business Finance division in 2016. To allow for meaningful comparison between the reported periods, subtotals have been provided to present the insurance recovery separately.

[2] Comparatives for the six months ended 30 June 2018 were restated to reclass £0.3 million of expected credit losses on loan commitments in the statement of profit and loss, from impairment losses on financial assets to provisions for liabilities and charges. As a result of this restatement, the Group's cost to income ratio was restated from 48.6% to 48.9%. 'Unadjusted' cost of risk (see Footnote 4) was also restated from 0.16% to 0.15%.

[3] Comparatives for the six months ended 30 June 2018 were restated to reflect amendments to IAS 12. See Note 1.3(b) for details.

[4] Footnote 1 describes the £10.0 million insurance recovery included in the six months ended 30 June 2018. To allow for meaningful comparison between the reported periods, KPIs for the six months ended 30 June 2018 have been calculated on both an 'unadjusted' basis (including the insurance recovery) and an 'adjusted' basis (excluding the insurance recovery).

## Financial and Business Review (continued)

### Financial position summary

The below table presents the key balances from the Group's statement of financial position:

| | **30 Jun 2019 (Unaudited) £m** | 31 Dec 2018 (Audited) £m |
|---|---|---|
| Loans and advances to customers | **6,440.5** | 5,845.9 |
| **Total assets** | **7,671.0** | 6,824.9 |
| | | |
| Customer deposits | **5,530.2** | 4,977.9 |
| **Total liabilities** | **6,952.0** | 6,143.8 |
| | | |
| **Equity** | **719.0** | 681.1 |

**Key metrics**
The below metrics are defined on page 41.

| | **30 Jun 2019 (Unaudited)** | 31 Dec 2018 (Audited) |
|---|---|---|
| **Assets and asset quality** | | |
| Loan book (£m) | **6,477.9** | 5,880.0 |
| Average principal employed (£m) | **6,103.8** | 5,351.8 |
| Ratio of Stage 3 loans (%) | **1.6** | 2.0 |
| **Liquidity** | | |
| Liquidity coverage ratio (%) | **257.7** | 244.9 |
| **Capital and leverage** | | |
| Risk-weighted assets (£m) | **4,843.6** | 4,206.8 |
| Common Equity Tier 1 capital ratio (%) | **11.4** | 12.3 |
| Total Tier 1 capital ratio (%) | **14.0** | 15.2 |
| Total capital ratio (%) | **15.5** | 17.0 |
| Leverage ratio (%) | **8.7** | 9.2 |

## Financial and Business Review (continued)

### Business Review

Shawbrook is evolving to become the Specialist SME Lender of Choice and we are consciously investing in the business platforms to support our medium term ambitions. The business delivered a sound H1 2019, with the Group's performance driven by an increase in new business volumes, resulting in the loan book increasing by 10% to £6.5 billion from 31 December 2018 (£5.9 billion) and by 22% year on year (30 June 2018: £5.3 billion). The Group's key strategic pillars remain supported by continued strength in performance as follows:

**Achieve strong risk-adjusted returns**

- The Group achieved a net interest margin of 4.8% at H1 2019 (30 June 2018: 5.2%) reflecting a shift in the Group's portfolio mix towards secured Property Finance, in addition to continued heightened competition across the Group's lending markets.

**Enhance customer focus**

- In June 2019, the Group published its latest 'Commercial Property Market Report' in partnership with leading economics consultancy, the Centre for Economics and Business Research (CEBR). Assessing the state of the current market, market trends and the impact of political change, the report utilises the division's expertise of the sector to offer informed advice to the Group's valued customers.
- Keeping the customer at the forefront of all business activity, during the period the Group introduced its new Unitranche and Commercial Investment products, catering for evolving customer needs and serving our specialist customers through their lifecycles.

**Progressively increase originations**

- The Group's loan book grew by 10%, increasing from £5.9 billion on 31 December 2018 to £6.5 billion as at 30 June 2019.

**Maintain excellent credit quality**

- The Group experienced a low cost of risk of 61bps during the period (30 June 2018: 55bps excluding the insurance recovery[1]). The slight uptick in impairment charge has been driven by the Group's consumer portfolio, as we are yet to realise the full effects of the Group's advanced decision model.
- On 30 June 2019, the Group's ratio of Stage 3 loans, calculated in line with IFRS 9, came in at 1.6% (31 December 2018: 2.0%).

**Maintain conservative foundations**

- The Group continued to hold robust levels of regulatory capital resources during the period, maintaining a CET1 ratio of 11.4% (31 December 2018: 12.3%) and a total capital ratio of 15.5% (31 December 2018: 17.0%).
- The Group continues to be a predominantly retail deposit funded business, achieving a loan to deposit ratio of 116.5% as at 30 June 2019 (31 December 2018: 117.4%).
- During the period, the Group successfully completed its inaugural securitisation. In support of the Group's funding strategy, the £250 million residential mortgage-backed security (RMBS) transaction will diversify the Group's funding composition.

[1] Impairment losses on financial assets in the six months ended 30 June 2018 includes a recovery of £10.0 million received by the Group from the insurance claim in respect of the controls breach identified in the Business Finance division in 2016.
Cost of risk including the £10.0 million recovery is 0.15% (restated from 0.16% - see Footnote 2 on page 4). Cost of risk when adjusted to exclude the £10.0 million recovery is 0.55%.

# Divisional Review

## Property Finance

**Buy-to-let**
In H1 2019, the division continued to dedicate resources to enhance its online lending platform, streamlining processes to deliver improved loan execution. In January 2019, the business introduced its integrated 'E-Tech' online business management application platform to its broker partners. The implementation of this platform has efficiently streamlined operations, allowing brokers to seamlessly service our customers whilst mitigating any underwriting risks involved.

Clarifying the Group's appetite to lend to repeat borrowers and build mutually beneficial partnerships with investors, in April we introduced a loan exposure ceiling or, "Customer Appetite Statement" delivered via our broker partners. Reviewed as the relationship with the customer develops over time, this initiative is a clear demonstration of the belief we have in a customer's business model as they look to build and grow with Shawbrook and represents our desire to support across an investor's entire property journey.

**Short-term Lending (STL)**
Recognising the importance of technology, and the imperative part it plays in the broker experience, in H1 2019 the Group successfully extended its E-AIP platform to capture its STL proposition. Maximising efficiency across each case journey, this development has permitted STL applications to be entered directly onto the system for a virtually instant decision, allowing brokers to manage client expectations.

**Commercial Investment**
Understanding the importance of keeping up with evolving landlord needs, in H1 2019 the Group initiated an upgrade of its Commercial Investment proposition and under new leadership, made several refreshments to its lending criteria. The revamp is designed to support customer needs through the end-to-end property journey and includes up to 25-year interest only terms, broader experience requirements and improved rates.

In H1 2019, the business also introduced the innovative 'Complex Commercial Product' designed to support experienced landlords seeking greater returns through capital value or yield. Specifically, on projects that sit outside of letting a property on standard Full Repair and Insurance lease.

**Financial Position**
Loan book: 12% growth in loan book in the first half of 2019 to £4.1 billion (31 December 2018: £3.7 billion).

**Outlook**
Following the appointment of the Group's new Property Finance Managing Director, John Eastgate, we are in a positive position to build on our strategic goals, as we continue to demonstrate our commitment to serving the needs of those property professionals and customers that fall outside the scope of the mainstream banks.

# Divisional Review (continued)

## Business Finance

### Regional Business Centres (RBCs)
Throughout the first half of 2019, the RBC model remained focused on investing in people as we continue to build capacity and capability in our regional markets.

The range of products available through the RBCs continues to grow, with our Commercial Mortgage and Senior Structured Debt products both well received by customers and their advisers across the network. The comprehensive review of our intermediary channel completed in the early part of 2019 will now start driving a number of service enhancements as we seek to deliver consistent and first-class broker interactions.

### Structured Finance
The provision of wholesale finance, through both structured committed facilities and our block discounting proposition, to non-bank specialist funders continues to grow. In the first half of the year we have added a number of clients to our portfolio, considerably increased advances and grown our total loan book in this area. We remain alert to changing regulation and the complexities of this market.

We have invested in proposition development and people within our Structured Finance business, bringing our Growth Capital product to market at the end of 2018 and launching Unitranche in the first half of 2019. We have now completed three Growth Capital transactions, working with our customers' Venture Capital sponsors to enable continued fast growth. Our first Unitranche transaction completed in June and we enter the second half of 2019 with strong interest in both products. Alongside our traditional asset-backed lending offering, these products present a comprehensive proposition to the sponsors market as we look to support more mid-market portfolio businesses throughout the investment lifecycle.

### Specialist Asset Finance
Offering a differentiated specialist proposition in multiple discrete sectors continues to provide depth and diversity in the loan book. The strategy for growth in this business continues to focus on going deeper into the markets we know well and moving into immediately adjacent sectors. Our Healthcare Finance proposition was re-launched in May 2019 after investment in people and product development, with our first commercial loan transaction completing in the same month. We are now well positioned to support a far broader range of needs within the healthcare market, supporting more providers to deliver better patient outcomes and resident experiences.

### Development Finance
Demand for finance from established regional developers remains high, responding to this in H1 2019 the business continued to invest in talent across key regional markets and leveraged the networks provided by the Group's RBC model. Building profile in the market, new lending volumes reaped the benefit as the business's total loan book strengthened.

### Financial Position
Loan book: 13% growth in loan book in the first half of 2019 to £1.6 billion (31 December 2018: £1.4 billion).

### Outlook
The Business Finance division is building best in class product sets, taking a holistic approach to the needs of UK SMEs. We are building a modern SME bank of the future and are at the forefront of providing UK SMEs with a high quality SME offering and we continue to evolve and widen our proposition.

## Divisional Review (continued)

### Consumer Finance

In H1 2019, the Board took the opportunity to consider its strategic options regarding the Group's Consumer Lending business, which may ultimately result in an exit from this market. Significant value has however been built in our Consumer Lending franchise as we continue to serve the specialist segments of the UK consumer unsecured markets.

**Partner Finance**
In H1 2019, the division continued its focus on its strategic partners, concentrating efforts on mutually beneficial partnerships which can deliver better customer outcomes and value creation for all parties. Continuing to work in partnership with key suppliers to align our ambitions ensures confidence in delivering sustainable growth in originations and returns, whilst supporting a shared cultural vision.

**Personal Loans**
Following the integration of the Group's best-in-class decision engine and custom-built, bespoke underwriting scorecard in H2 2018, outcome data is indicative of significantly improved decision-making capability and improved credit performance, which will be recognised over time. As the business remains committed to achieving safe and sustainable growth with a market-leading customer experience, the business will continue to optimise its risk and pricing strategies.

**Financial Position**
Loan book: The loan book remained at £0.7 billion as at 30 June 2019 (31 December 2018: £0.7 billion).

**Outlook**
Notwithstanding our strategic considerations, we expect continued growth in H2 2019 across our Personal Loans proposition as we deliver against our optimised risk and pricing strategies, whilst the more mature Partner Finance proposition will benefit from stability in returns as the business focuses on innovation with suppliers. In addition, the business is exploring the benefits of Open Banking and Machine Learning to enhance decisioning, modelling and analytical capabilities.

**Savings**
The Group continues to be primarily funded by personal and retail customers, raising deposits through its direct to Bank channel, supported by funding from strategic partnerships. In the first half of 2019, the Group remained close to the evolving Savings ecosystem by exploring and launching new acquisition channels to diversify source of deposits and to reduce reliance on the best buy tables.

Diversifying the Group's retail savings model by increasing distribution channels in support of the core, direct to Bank channel, has been a core focus in H1 2019, which saw the business extend its partnership network. Introducing several like-minded savings providers to the business, we are confident that their complementary customer demographics and business models will support our growth and commercial ambitions.

In addition to the Group's personal savings proposition, the business continues to concentrate its efforts on building out a compelling proposition for its business savings offering to SME customers. In H2 2019, the business will continue to explore the opportunities presented by the SME and Charity deposit markets, as well as placing customer and colleague experience at the forefront of everything that is developed.

## Interim Risk Management Report

*Except where otherwise indicated, the following report is covered by the Independent Review Report on page 17.*

The Interim Risk Management Report provides information on Shawbrook Group plc and its subsidiaries (together, the 'Group').

The Interim Risk Management Report is a condensed report and should be read in conjunction with the Risk Management Report in the Group's 2018 Annual Report and Accounts, which is available on the Group's website (www.shawbrook.co.uk/investors).

## Top and emerging risks

The Group's top and emerging risks are considered regularly by Management through the Enterprise Risk Management Committee and subsequently by the Risk Committee. These risks are listed below and are fully detailed in Section 3 of the Risk Management Report in the Group's 2018 Annual Report and Accounts:

**Top risks:**

- geopolitical risk;
- economic and competitive environment;
- pace of regulatory change;
- intermediary, outsourcing and operational resiliency;
- pace, scale of change and people risk;
- credit impairment; and
- information risk.

**Emerging risks:**

- Brexit;
- minimum requirements for own funds and eligible liabilities funding requirements;
- financial crime;
- climate change; and
- General Data Protection Regulation.

Brexit is one of the most significant economic events for the UK. The Group continues to monitor the range of potential outcomes in relation to Brexit through its forward-looking economic forecasts and uses these to assess the implications for its business model in each of the divisions. Furthermore, the economic uncertainty associated with Brexit is formally reviewed by the Group Impairment Committee and Audit Committee at the end of each half year. As at 30 June 2019, the modelled impact on the Group's expected credit losses remained unchanged from the 31 December 2018.

There have been no significant changes to any of the other top and emerging risks identified by the Group as at 31 December 2018.

## Key risk categories

The key risk categories faced by the Group are as follows:

- creditworthiness risk (including concentration and single name risk);
- liquidity and market risk;
- operational risk;
- conduct, legal and compliance risk;
- strategic risk; and
- systems and change risk.

Each of these risks are defined in Section 4 of the Risk Management Report in the Group's 2018 Annual Report and Accounts, with further details of each risk category subsequently presented in Sections 5-11.

Certain disclosures and updates relating to the Group's creditworthiness risk, liquidity risk and operational risk are provided in the following sections.

## Creditworthiness risk

Creditworthiness risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group due to lack of willingness to pay (credit risk) and/or lack of ability to pay (affordability).

Creditworthiness risk is detailed in Section 5 of the Risk Management Report in the Group's 2018 Annual Report and Accounts.

Certain disclosures relating to the creditworthiness risk associated with the Group's loans and advances to customers are shown in the following sections:

### (a) Impairment

The following tables provide an analysis of the Group's loans and advances to customers by reportable segment and the IFRS 9 stage classification:

| **As at 30 June 2019 (Unaudited)** | **Property Finance £m** | **Business Finance £m** | **Consumer Lending £m** | **Total £m** |
|---|---|---|---|---|
| Stage 1 | **3,374.5** | **1,385.6** | **687.4** | **5,447.5** |
| Stage 2 | **698.5** | **184.8** | **64.2** | **947.5** |
| Stage 3 | **68.2** | **30.6** | **7.8** | **106.6** |
| **Gross loans and advances to customers** | **4,141.2** | **1,601.0** | **759.4** | **6,501.6** |
| | | | | |
| Stage 1 | **(3.0)** | **(7.5)** | **(15.2)** | **(25.7)** |
| Stage 2 | **(5.1)** | **(3.7)** | **(11.9)** | **(20.7)** |
| Stage 3 | **(7.1)** | **(12.9)** | **(5.4)** | **(25.4)** |
| **Loss allowance** | **(15.2)** | **(24.1)** | **(32.5)** | **(71.8)** |
| | | | | |
| Fair value adjustments for hedged risk | **9.0** | **-** | **1.7** | **10.7** |
| | | | | |
| **Total loans and advances to customers** | **4,135.0** | **1,576.9** | **728.6** | **6,440.5** |
| | | | | |
| **Loss allowance coverage (%)** | **0.4%** | **1.5%** | **4.3%** | **1.1%** |

| As at 31 December 2018 (Audited) | Property Finance £m | Business Finance £m | Consumer Lending £m | Total £m |
|---|---|---|---|---|
| Stage 1 | 3,051.5 | 1,179.7 | 690.8 | 4,922.0 |
| Stage 2 | 607.8 | 188.5 | 75.3 | 871.6 |
| Stage 3 | 60.6 | 54.0 | 6.6 | 121.2 |
| Gross loans and advances to customers | 3,719.9 | 1,422.2 | 772.7 | 5,914.8 |
| | | | | |
| Stage 1 | (2.0) | (5.9) | (15.6) | (23.5) |
| Stage 2 | (5.5) | (4.0) | (11.2) | (20.7) |
| Stage 3 | (6.2) | (13.0) | (4.4) | (23.6) |
| Loss allowance | (13.7) | (22.9) | (31.2) | (67.8) |
| | | | | |
| Fair value adjustments for hedged risk | (0.6) | - | (0.5) | (1.1) |
| | | | | |
| Total loans and advances to customers | 3,705.6 | 1,399.3 | 741.0 | 5,845.9 |
| | | | | |
| Loss allowance coverage (%) | 0.4% | 1.6% | 4.0% | 1.1% |

## Creditworthiness risk (continued)

### (b) Credit risk exposure

The Group assesses credit risk using the Group's internal classifications based on the point-in-time probability of default (PD) of individual agreements. Classifications are defined as follows:

- **Low risk:** assets have a point-in-time PD less than or equal to 0.38%.
- **Medium risk:** assets have a point-in-time PD greater than 0.38% and less than or equal to 1.76%.
- **High risk:** assets have a point-in-time PD greater than 1.76%.

The following tables provide an analysis of the credit risk exposure associated with the Group's loans and advances to customers. The gross carrying amount represents the Group's maximum exposure to credit risk. Information is based on the credit risk grades defined above and the IFRS 9 stage classification.

| **As at 30 June 2019 (Unaudited)** | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** |
|---|---|---|---|---|
| **Credit grade** | | | | |
| Low risk | **1,679.9** | **43.7** | **6.5** | **1,730.1** |
| Medium risk | **2,376.1** | **427.2** | **14.6** | **2,817.9** |
| High risk | **1,391.5** | **476.6** | **85.5** | **1.953.6** |
| **Gross carrying amount** | **5,447.5** | **947.5** | **106.6** | **6,501.6** |

| As at 31 December 2018 (Audited) | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| Credit grade | | | | |
| Low risk | 1,906.5 | 26.2 | 7.7 | 1,940.4 |
| Medium risk | 1,910.4 | 464.5 | 33.3 | 2,408.2 |
| High risk | 1,105.1 | 380.9 | 80.2 | 1,566.2 |
| Gross carrying amount | 4,922.0 | 871.6 | 121.2 | 5,914.8 |

### (c) Forbearance

The Group's forbearance policy is outlined in Section 5.9 of the Risk Management Report in the Group's 2018 Annual Report and Accounts.

Consistent with the year ended 31 December 2018, the Group continues to include short-term repayment plans within its definition of forbearance in the period ended 30 June 2019.

The Group continues to believe that the narrow set of forbearance measures used, means that the impact of the probation period (curing) remains limited. Progress has been made in the development of the forbearance data and it is expected to be fully implemented during the period to 31 December 2019.

The following tables provide a summary of the Group's forborne loans and advances to customers by reportable segment:

| | | **Gross amount of forborne loans** | | | **Loss allowance on forborne loans** | | | |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2019 (Unaudited)** | **Number** | **Performing £m** | **Non-performing £m** | **Total £m** | **Performing £m** | **Non-performing £m** | **Total £m** | **Coverage %** |
| Property Finance | **1,074** | **20.5** | **47.2** | **67.7** | **(0.4)** | **(4.3)** | **(4.7)** | **6.9** |
| Business Finance | **334** | **18.8** | **14.8** | **33.6** | **(0.1)** | **(4.4)** | **(4.5)** | **13.4** |
| Consumer Lending | **5,050** | **4.5** | **9.9** | **14.4** | **(0.8)** | **(5.8)** | **(6.6)** | **45.8** |
| **Total** | **6,458** | **43.8** | **71.9** | **115.7** | **(1.3)** | **(14.5)** | **(15.8)** | **13.7** |

## Creditworthiness risk (continued)

| As at 31 December 2018 (Audited) | Number | Gross amount of forborne loans Performing £m | Non-performing £m | Total £m | Loss allowance on forborne loans Performing £m | Non-performing £m | Total £m | Coverage % |
|---|---|---|---|---|---|---|---|---|
| Property Finance | 1,011 | 9.5 | 40.1 | 49.6 | (0.2) | (4.1) | (4.3) | 8.7 |
| Business Finance | 313 | 14.2 | 29.1 | 43.3 | (0.3) | (3.8) | (4.1) | 9.5 |
| Consumer Lending | 4,687 | 2.9 | 10.1 | 13.0 | (0.3) | (5.3) | (5.6) | 43.1 |
| Total | 6,011 | 26.6 | 79.3 | 105.9 | (0.8) | (13.2) | (14.0) | 13.2 |

The following tables provide a summary of the Group's forborne loans and advances to customers by the IFRS 9 stage classification:

| **As at 30 June 2019 (Unaudited)** | **Number** | **Gross amount of forborne loans Performing £m** | **Non-performing £m** | **Total £m** | **Loss allowance on forborne loans Performing £m** | **Non-performing £m** | **Total £m** | **Coverage %** |
|---|---|---|---|---|---|---|---|---|
| Stage 1 | **1,239** | **13.4** | **4.9**[1] | **18.3** | **(0.3)** | **(0.4)**[1] | **(0.7)** | **3.8** |
| Stage 2 | **1,434** | **30.4** | **34.5** | **64.9** | **(1.0)** | **(3.3)** | **(4.3)** | **6.6** |
| Stage 3 | **3,785** | **-** | **32.5** | **32.5** | **-** | **(10.8)** | **(10.8)** | **33.2** |
| **Total** | **6,458** | **43.8** | **71.9** | **115.7** | **(1.3)** | **(14.5)** | **(15.8)** | **13.7** |

| As at 31 December 2018 (Audited) | Number | Gross amount of forborne loans Performing £m | Non-performing £m | Total £m | Loss allowance on forborne loans Performing £m | Non-performing £m | Total £m | Coverage % |
|---|---|---|---|---|---|---|---|---|
| Stage 1 | 1,097 | 6.5 | 6.8[1] | 13.3 | (0.1) | (0.4)[1] | (0.5) | 3.8 |
| Stage 2 | 1,421 | 20.1 | 40.5 | 60.6 | (0.7) | (2.9) | (3.6) | 5.9 |
| Stage 3 | 3,493 | - | 32.0 | 32.0 | - | (9.9) | (9.9) | 30.9 |
| Total | 6,011 | 26.6 | 79.3 | 105.9 | (0.8) | (13.2) | (14.0) | 13.2 |

[1] Loans are classified as non-performing and Stage 1 where the latest forbearance measure was extended more than a year ago and the number of days past due at the current reporting period is more than zero but less than 30.

## Creditworthiness risk (continued)

### (d) Concentrations of credit risk

The following tables provide an analysis of concentrations of credit risk from the Group's loans and advances to customers by geographic location:

| **As at 30 June 2019 (Unaudited)** | **Property Finance £m** | **Business Finance £m** | **Consumer Lending £m** | **Total £m** |
|---|---|---|---|---|
| East Anglia | **135.2** | **68.8** | **32.1** | **236.1** |
| East Midlands | **127.6** | **93.2** | **57.3** | **278.1** |
| Greater London | **1,647.7** | **368.4** | **82.1** | **2,098.2** |
| Guernsey / Jersey / Isle of Man | **29.7** | **61.8** | **0.1** | **91.6** |
| North East | **60.1** | **44.6** | **33.6** | **138.3** |
| North West | **333.2** | **186.1** | **88.9** | **608.2** |
| Northern Ireland | **9.0** | **0.1** | **2.0** | **11.1** |
| Scotland | **252.0** | **83.3** | **88.1** | **423.4** |
| South East | **811.0** | **241.7** | **141.3** | **1,194.0** |
| South West | **292.4** | **135.8** | **61.0** | **489.2** |
| Wales | **87.6** | **81.4** | **31.2** | **200.2** |
| West Midlands | **165.8** | **149.6** | **72.3** | **387.7** |
| Yorkshire / Humberside | **189.9** | **86.2** | **69.4** | **345.5** |
| **Gross loans and advances to customers** | **4,141.2** | **1,601.0** | **759.4** | **6,501.6** |

| As at 31 December 2018 (Audited) | Property Finance £m | Business Finance £m | Consumer Lending £m | Total £m |
|---|---|---|---|---|
| East Anglia | 117.8 | 69.6 | 32.3 | 219.7 |
| East Midlands | 120.6 | 58.2 | 58.8 | 237.6 |
| Greater London | 1,454.9 | 300.8 | 82.3 | 1,838.0 |
| Guernsey / Jersey / Isle of Man | 24.5 | 46.3 | 0.1 | 70.9 |
| North East | 52.8 | 31.4 | 35.3 | 119.5 |
| North West | 305.6 | 171.4 | 92.0 | 569.0 |
| Northern Ireland | 9.6 | 1.8 | 2.1 | 13.5 |
| Scotland | 222.1 | 93.2 | 89.4 | 404.7 |
| South East | 747.4 | 221.4 | 141.1 | 1,109.9 |
| South West | 263.6 | 113.3 | 61.3 | 438.2 |
| Wales | 80.0 | 95.0 | 31.3 | 206.3 |
| West Midlands | 141.6 | 151.4 | 74.9 | 367.9 |
| Yorkshire / Humberside | 179.4 | 68.4 | 71.8 | 319.6 |
| Gross loans and advances to customers | 3,719.9 | 1,422.2 | 772.7 | 5,914.8 |

## Liquidity risk

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

Liquidity risk is detailed in Section 6 of the Risk Management Report in the Group's 2018 Annual Report and Accounts.

Certain metrics used by the Group in assessing liquidity risk are shown below:

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

| | **30 Jun 2019 (Unaudited) £m** | 31 Dec 2018 (Audited) £m |
|---|---|---|
| Cash and withdrawable central bank reserves | **801.8** | 636.1 |
| Extremely high-quality covered bonds | **183.8** | 129.5 |
| **Total liquidity buffer** | **985.6** | 765.6 |

The following table sets out the Group's liquidity coverage ratio. The liquidity coverage ratio is a key metric used by the Group to monitor for early signs of liquidity risk and aims to monitor the resilience of the Group to a liquidity risk over a 30-day period.

| | **30 Jun 2019 (Unaudited)** | 31 Dec 2018 (Audited) |
|---|---|---|
| Liquidity buffer (£m) | **985.6** | 765.6 |
| Total net cash outflows (£m) | **382.4** | 312.6 |
| **Liquidity coverage ratio (%)** | **257.7** | 244.9 |

## Operational risk

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

Operational risk is detailed in Section 8 of the Risk Management Report in the Group's 2018 Annual Report and Accounts.

During the period ended 30 June 2019, the Group created a dedicated Climate Change Committee to oversee the Group's approach to managing climate risk. The Committee has met frequently during the period to develop a Climate Change Plan. Responsibility for facilitating the impact assessment of climate risk and the delivery of the Climate Change Plan has been assigned to the Chief Risk Officer. Some changes have already been made to the Group Enterprise Risk Management Framework to ensure that management of climate risk becomes embedded throughout the Group, through the addition of a Level 2 risk within operational risk.

## Capital risk and management

*This section is not covered by the Independent Review Report on page 17.*

Capital risk is the risk that the Group has insufficient capital to cover regulatory requirements and/or to support its own growth plans.

Capital risk and its management is detailed in Section 12 of the Risk Management Report in the Group's 2018 Annual Report and Accounts.

Certain disclosures relating to the Group's capital resources and capital metrics are shown on the following page:

## Capital risk and management (continued)

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

| | 30 Jun 2019 £m | 31 Dec 2018 £m |
|---|---|---|
| Share capital | **2.5** | 2.5 |
| Share premium account | **87.3** | 87.3 |
| Retained earnings | **505.2** | 467.3 |
| Intangible assets | **(67.1)** | (66.4) |
| Transitional adjustment[1] | **23.8** | 25.7 |
| **Common Equity Tier 1 capital** | **551.7** | 516.4 |
| | | |
| Capital securities | **124.0** | 124.0 |
| **Additional Tier 1 capital** | **124.0** | 124.0 |
| | | |
| **Total Tier 1 capital** | **675.7** | 640.4 |
| | | |
| Subordinated debt liability[2] | **74.4** | 74.4 |
| **Tier 2 capital** | **74.4** | 74.4 |
| | | |
| **Total regulatory capital** | **750.1** | 714.8 |

The following table illustrates how the Group's total regulatory capital reconciles to total equity per the statement of financial position:

| | 30 Jun 2019 £m | 31 Dec 2018 £m |
|---|---|---|
| **Total regulatory capital** | **750.1** | 714.8 |
| | | |
| Subordinated debt liability[2] | **(74.4)** | (74.4) |
| Intangible assets | **67.1** | 66.4 |
| Transitional adjustment[1] | **(23.8)** | (25.7) |
| | | |
| **Total equity** | **719.0** | 681.1 |

The following table sets out the Group's key capital metrics:

| | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Risk-weighted assets (£m) | **4,843.6** | 4,206.8 |
| Common Equity Tier 1 capital ratio (%) | **11.4** | 12.3 |
| Total Tier 1 capital ratio (%) | **14.0** | 15.2 |
| Total capital ratio (%) | **15.5** | 17.0 |
| Leverage ratio (%) | **8.7** | 9.2 |

The Total Capital Requirement of the Group is 10.27% of risk-weighted assets (31 December 2018: 10.27% of risk-weighted assets).

[1] Transitional adjustments refer to adjustments for phasing in the impact of IFRS 9 adoption in accordance with EU regulatory transitional arrangements.

[2] For the purpose of regulatory capital calculations, capitalised interest of £1.1 million is excluded (31 December 2018: £1.1 million). Accrued interest is payable semi-annually and is therefore excluded from capital reserves.

## Independent Review Report to Shawbrook Group plc

**Conclusion**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2019 which comprises 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.

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 report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

**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. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

***The impact of uncertainties due to the UK exiting the European Union on our review***
Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

**Directors' responsibilities**

The half-yearly report is the responsibility of, and has been approved by, the directors.

The annual financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 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 report based on our review.

**The purpose of our review work and to whom we owe our responsibilities**

This report is made solely to the company in accordance with the terms of our engagement. 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.

**Simon Ryder**
**for and on behalf of KPMG LLP**
*Chartered Accountants*
15 Canada Square
London, E14 5GL

7 August 2019

## Condensed consolidated statement of profit and loss and other comprehensive income

| For the six months ended 30 June (Unaudited) | Note | | 2019 £m | | 2018 £m |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate method | 3 | | **195.3** | | 168.6 |
| Other interest and similar income | 3 | | **-** | | 0.7 |
| Interest expense and similar charges | 4 | | **(51.8)** | | (40.4) |
| **Net interest income** | | | **143.5** | | 128.9 |
| | | | | | |
| Operating lease rentals | | | **5.1** | | 4.9 |
| Depreciation on operating leases | | | **(4.3)** | | (3.7) |
| Other operating lease income / (expense) | | | **0.1** | | (0.4) |
| **Net income from operating leases** | | | **0.9** | | 0.8 |
| | | | | | |
| Fee and commission income | | | **4.9** | | 5.6 |
| Fee and commission expense | | | **(4.4)** | | (4.0) |
| **Net fee and commission income** | | | **0.5** | | 1.6 |
| | | | | | |
| Net losses on financial instruments mandatorily at fair value through profit or loss | | | **(0.1)** | | (0.5) |
| | | | | | |
| **Net operating income** | | | **144.8** | | 130.8 |
| | | | | | |
| Administrative expenses | 5 | | **(70.1)** | | (61.4) |
| Impairment losses on financial assets[1,2] | 7 | | | | |
| - *Impairment losses on financial assets (excluding insurance recovery)* | | ***(18.4)*** | | *(13.8)* | |
| - *Insurance recovery* | | ***-*** | | *10.0* | |
| | | | **(18.4)** | | (3.8) |
| Provisions for liabilities and charges[2] | 12 | | **(0.6)** | | (2.5) |
| **Total operating expenses** | | | **(89.1)** | | (67.7) |
| | | | | | |
| Share of results of associates | | | **(0.1)** | | - |
| | | | | | |
| **Profit before tax** | | | **55.6** | | 63.1 |
| | | | | | |
| Tax[3] | 8 | | **(13.5)** | | (15.1) |
| | | | | | |
| **Profit after tax, being total comprehensive income, attributable to owners[3]** | | | **42.1** | | 48.0 |

The notes on pages 22 to 40 are an integral part of these condensed consolidated interim financial statements.

[1] During the six months ended 30 June 2018, the Group received £10.0 million from the Group's insurance claim in respect of the controls breach identified in the Business Finance division in 2016. To allow for meaningful comparison between the reported periods, subtotals have been provided to present the insurance recovery separately.

[2] Comparatives for the six months ended 30 June 2018 were restated to reclass £0.3 million of expected credit losses on loan commitments from impairment losses on financial assets to provisions for liabilities and charges.

[3] Comparatives for the six months ended 30 June 2018 were restated to reflect amendments to IAS 12. See Note 1.3(b) for details.

## Condensed consolidated statement of financial position

| | Note | 30 Jun 2019 (Unaudited) £m | 31 Dec 2018 (Audited) £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | **812.0** | 645.2 |
| Loans and advances to banks | | **62.9** | 50.6 |
| Loans and advances to customers | 9 | **6,440.5** | 5,845.9 |
| Investment securities | | **197.0** | 139.9 |
| Derivative financial assets | | **1.7** | 1.6 |
| Property, plant and equipment[1] | | **51.6** | 39.1 |
| Intangible assets | 11 | **67.1** | 66.4 |
| Deferred tax assets | | **18.0** | 18.0 |
| Investment in associates | | **5.4** | 5.5 |
| Other assets | | **14.8** | 12.7 |
| **Total assets** | | **7,671.0** | 6,824.9 |
| | | | |
| **Liabilities** | | | |
| Amounts due to banks | | **1,019.8** | 1,029.4 |
| Customer deposits | | **5,530.2** | 4,977.9 |
| Provisions for liabilities and charges | 12 | **8.2** | 11.6 |
| Derivative financial liabilities | | **16.6** | 5.7 |
| Debt securities in issue | 13 | **248.8** | - |
| Current tax liabilities | | **5.6** | 4.0 |
| Lease liabilities[1] | | **10.3** | - |
| Other liabilities | | **37.0** | 39.7 |
| Subordinated debt liability | | **75.5** | 75.5 |
| **Total liabilities** | | **6,952.0** | 6,143.8 |
| | | | |
| **Equity** | | | |
| Share capital | | **2.5** | 2.5 |
| Share premium account | | **87.3** | 87.3 |
| Capital securities | | **124.0** | 124.0 |
| Retained earnings | | **505.2** | 467.3 |
| **Total equity** | | **719.0** | 681.1 |
| | | | |
| **Total equity and liabilities** | | **7,671.0** | 6,824.9 |

The notes on pages 22 to 40 are an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on 7 August 2019 and were signed on its behalf by:

**Ian Cowie**
Chief Executive Officer

**Dylan Minto**
Chief Financial Officer

Registered number 07240248

[1] Adoption of IFRS 16 on 1 January 2019 resulted in the recognition of right-of-use assets included in property plant and equipment and lease liabilities. See Note 1.3(a) for details.

## Condensed consolidated statement of changes in equity

| **For the six months ended 30 June 2019 (Unaudited)** | **Share capital £m** | **Share premium account £m** | **Capital securities £m** | **Retained earnings £m** | **Total equity £m** |
|---|---|---|---|---|---|
| **As at 1 January 2019** | **2.5** | **87.3** | **124.0** | **467.3** | **681.1** |
| Profit for the period | **-** | **-** | **-** | **42.1** | **42.1** |
| Share-based payments | **-** | **-** | **-** | **0.7** | **0.7** |
| Coupon paid on capital securities | **-** | **-** | **-** | **(4.9)** | **(4.9)** |
| **As at 30 June 2019** | **2.5** | **87.3** | **124.0** | **505.2** | **719.0** |

| For the six months ended 30 June 2018 (Unaudited) | Share capital £m | Share premium account £m | Capital securities £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| As at 1 January 2018 | 2.5 | 87.3 | 124.0 | 409.3 | 623.1 |
| Impact of adopting IFRS 9 | - | - | - | (16.0) | (16.0) |
| Restated balance as at 1 January 2018 | 2.5 | 87.3 | 124.0 | 393.3 | 607.1 |
| | | | | | |
| Profit for the period[1] | - | - | - | 48.0 | 48.0 |
| Share-based payments | - | - | - | (0.3) | (0.3) |
| Coupon paid on capital securities[1] | - | - | - | (4.9) | (4.9) |
| | | | | | |
| As at 30 June 2018 | 2.5 | 87.3 | 124.0 | 436.1 | 649.9 |

The notes on pages 22 to 40 are an integral part of these condensed consolidated interim financial statements.

[1] Restated to reflect amendments to IAS 12. See Note 1.3(b) for details. Coupon paid on capital securities is gross of tax.

## Condensed consolidated statement of cash flows

| For the six months ended 30 June (Unaudited) | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **55.6** | 63.1 |
| Adjustments for non-cash items and other adjustments included within the statement of profit and loss[1] | | **17.7** | 14.6 |
| Increase in operating assets[2] | 14(a) | **(609.5)** | (477.0) |
| Increase in operating liabilities[1] | 14(b) | **557.7** | 220.3 |
| Tax paid | | **(11.9)** | (9.5) |
| **Net cash generated from / (used by) operating activities** | | **9.6** | (188.5) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | | **(57.0)** | - |
| Interest received from investment securities | | **0.6** | - |
| Purchase of property, plant and equipment | | **(0.5)** | (2.6) |
| Purchase of intangible assets | | **(4.7)** | (3.7) |
| Purchase of shares in associates[2] | | **-** | (6.0) |
| **Net cash used by investing activities** | | **(61.6)** | (12.3) |
| | | | |
| **Cash flows from financing activities** | | | |
| (Decrease) / increase in amounts due to banks | | **(9.6)** | 367.0 |
| Issue of debt securities | | **250.0** | - |
| Costs arising on issue of debt securities | | **(1.6)** | - |
| Payment of lease liabilities[3] | | **(0.7)** | - |
| Payment of subordinated debt interest | | **(3.2)** | (3.2) |
| Coupon paid to holders of capital securities | | **(4.9)** | (4.9) |
| **Net cash generated from financing activities** | | **230.0** | 358.9 |
| | | | |
| **Net increase in cash and cash equivalents** | | **178.0** | 158.1 |
| Cash and cash equivalents as at 1 January | | **686.9** | 777.0 |
| **Cash and cash equivalents as at 30 June** | | **864.9** | 935.1 |

The notes on pages 22 to 40 are an integral part of these condensed consolidated interim financial statements.

[1] Comparatives for the six months ended 30 June 2018 were restated to reflect the reclass of £0.3 million of expected credit losses on loan commitments in the statement of profit and loss, from impairment losses on financial assets to provisions for liabilities and charges.

[2] Comparatives for the six months ended 30 June 2018 were restated to reclass the Group's £6.0 million purchase of shares in The Mortgage Lender from movement in operating assets to cash flows from investing activities under purchase of shares in associates.

[3] Reflects adoption of IFRS 16 on 1 January 2019, in which lease payments are presented within cash flows from financing activities. See Note 1.3(a) for details.

# Notes to the condensed consolidated interim financial statements

## 1. Basis of preparation and accounting policies

### 1.1. Reporting entity

Shawbrook Group plc (the 'Company') is a public limited company incorporated and domiciled in the UK. The registered office is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE. The condensed consolidated interim financial statements of Shawbrook Group plc, for the six months ended 30 June 2019, comprise the results of the Company and its subsidiaries (together, the 'Group'), including its principal subsidiary, Shawbrook Bank Limited.

### 1.2. Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2019, have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board and as adopted by the EU.

The Interim Financial Report does not include all information and disclosures required in full annual financial statements and should be read in conjunction with the Group's 2018 Annual Report and Accounts, which is available on the Group's website (www.shawbrook.co.uk/investors). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements.

The condensed consolidated interim financial statements are prepared on a historical cost basis, except as required in the valuation of certain financial instruments which are carried at fair value. All amounts are presented in Pounds Sterling, which is the functional currency of the Company and all of its subsidiaries. Amounts are rounded to the nearest million, except where otherwise indicated.

The condensed consolidated interim 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 date of approval of the Interim Financial Report. The Directors are also satisfied that the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements, as set out by the Prudential Regulation Authority. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including under stressed scenarios. Information considered includes the current state of the statement of financial position, future projections of profitability, cash flows and capital and liquidity requirements and the longer term strategy of the business.

The comparative figures for the six months ended 30 June 2018 have not been audited and do not constitute the Group's statutory accounts for that period, as defined in section 434 of the Companies Act 2006.

The comparative figures for the year ended 31 December 2018 are the Group's statutory accounts and 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.

### 1.3. Changes in significant accounting policies

Except as described below, the accounting policies applied in the condensed consolidated interim financial statements are consistent with those described in Note 1.7 of the Group's 2018 Annual Report and Accounts, as are the methods of computation. These accounting policies are also expected to be reflected in the Group's 2019 Annual Report and Accounts.

On 1 January 2019, the Group adopted the requirements of IFRS 16 'Leases' and the amendments to IAS 12 'Income Taxes' (see Notes 1.3(a) and (b), respectively). A number of other new and revised standards issued by the International Accounting Standards Board, and endorsed for use in the EU, also came into effect on 1 January 2019, but they do not have a material effect on the Group's financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Certain events and transactions taking place during the six months ended 30 June 2019 have resulted in the Group applying accounting policies not described in the Group's 2018 Annual Report and Accounts. These are described in Notes 1.3(c)-(e) below.

## 1. Basis of preparation and accounting policies (continued)

### 1.3. Changes in significant accounting policies (continued)

#### (a) IFRS 16 'Leases'

On 1 January 2019, the Group adopted the requirements of IFRS 16. The new standard replaces IAS 17 'Leases' and related interpretations. The standard applies to all leasing arrangements and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessor and lessee accounting.

The Group has adopted IFRS 16 using the modified retrospective approach (with practical expedients). As such, the standard is applied as of 1 January 2019, with the cumulative effect recognised as an adjustment to the opening balance of retained earnings. Comparative information for 2018 is not restated.

The key changes and impacts are outlined below:

#### (i) Definition of a lease

Under IFRS 16, a contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

**Transition**

On transition to IFRS 16, the Group elected to apply the practical expedient set out in IFRS 16, which states an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. As such, the Group only applies the new requirements of IFRS 16 to contracts previously identified as leases under IAS 17 and to contracts entered into or changed on or after 1 January 2019 that meet the definition of a lease under IFRS 16. Contracts that were not previously identified as leases under IAS 17 were not reassessed.

#### (ii) Lessor accounting

Lessor accounting under IFRS 16 is largely unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as set out in IAS 17.

**Transition**

On adoption of IFRS 16, the accounting policies applied by the Group for leases in which it acts as a lessor are unchanged and there are no other impacts.

#### (iii) Lessee accounting

Previously under IAS 17, the Group classified each of its leases at inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards of ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and a reduction of the lease liability. In an operating lease, the leased asset was not capitalised and the lease payments were charged to administrative expenses in the statement of profit and loss on a straight-line basis over the lease term. Any prepaid or accrued lease payments were recognised in other assets or other liabilities, respectively.

Upon adoption of IFRS 16, the Group introduced a single lessee accounting model for all leases, except for short-term leases and leases of low value items. All leases are now recognised on-balance sheet whereby, a right-of-use asset is recognised to represent the right to use the underlying asset and a lease liability is recognised to represent the obligation to make lease payments.

**New accounting policies**

A summary of the new accounting policies applied by the Group upon adoption of IFRS 16 for leases in which it acts as a lessee is as follows:

<u>Right-of-use assets:</u>

The Group recognises a right-of-use asset at the lease commencement date. The right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and is adjusted for any remeasurement of the lease liability. The cost of the right-of-use asset includes the amount of the lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

# 1. Basis of preparation and accounting policies (continued)

## 1.3. Changes in significant accounting policies (continued)

The Group presents right-of-use assets in property, plant and equipment in the statement of financial position, classified in the right-of-use leasehold property category.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment. Depreciation and impairment losses are charged to administrative expenses in the statement of profit and loss.

Lease liabilities:
At the lease commencement date, the Group recognises a lease liability measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an administrative expense in the statement of profit and loss in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date, unless the interest rate implicit in the lease is readily determinable. After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to purchase the underlying asset.

Lease liabilities are presented as a line item in the statement of financial position.

Short-term leases and leases of low value assets:
The Group applies the recognition exemption to any short-term leases (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). The Group also applies the recognition exemption to leases that are considered of low value. Lease payments under such contracts continue to be charged to administrative expenses in the statement of profit and loss on a straight-line basis over the lease term.

Lease term:
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

**Transition**
Leases previously classified as finance leases:
At the date of transition, 1 January 2019, the Group had no lease contracts that had previously been classified as finance leases in which it acts as the lessee.

Leases previously classified as operating leases:
At the date of transition, 1 January 2019, the Group had a number of lease contracts for properties that had previously been classified as operating leases in which it acts as the lessee. For such leases, upon transition the Group recognised right-of-use assets and lease liabilities, except for short-term leases (see practical expedients below). Lease liabilities were recognised at the present value of the remaining lease payments discounted using the incremental borrowing rate at the date of initial application. Right-of-use assets were recognised at an amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognised.

## 1. Basis of preparation and accounting policies (continued)

### 1.3. Changes in significant accounting policies (continued)

The Group elected to apply the following practical expedients set out in IFRS 16, whereby it:

- used a single discount rate for portfolios of leases with reasonably similar characteristics;
- relied on its previous assessment of whether leases were onerous immediately before the date of initial application;
- applied the short-term lease exemption to leases with a remaining lease term of less than 12 months at the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

**Impacts on transition**

The effects of adopting IFRS 16 as at 1 January 2019 were as follows:

- Right-of-use assets of £10.3 million were recognised and are presented in a new right-of-use leasehold property category within property, plant and equipment in the statement of financial position.
- Lease liabilities of £10.9 million were recognised and are presented in a new line item in the statement of financial position.
- Prepayments of £nil and accruals of £0.6 million (included within other assets and other liabilities respectively) related to contracts previously classified as operating leases were derecognised.
- The net effect of these adjustments had no impact on opening retained earnings.

**Impacts for the period**

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the six months ended 30 June 2019:

| Six months ended 30 June 2019 (Unaudited) | Right-of-use leasehold property £m | Lease liabilities £m |
|---|---|---|
| **As at 1 January 2019** | **10.3** | **10.9** |
| Additions | **-** | **-** |
| Depreciation expense | **(0.7)** | **-** |
| Interest expense | **-** | **0.1** |
| Payments | **-** | **(0.7)** |
| **As at 30 June 2019** | **9.6** | **10.3** |

The below table sets out the amounts recognised in the statement of profit and loss:

| For the six months ended 30 June 2019 (Unaudited) | Administrative expenses £m | Interest expense £m | Total £m |
|---|---|---|---|
| Depreciation expense of right-of-use assets | **0.7** | **-** | **0.7** |
| Interest expense on lease liabilities | **-** | **0.1** | **0.1** |
| Rental expense on short-term leases | **0.5** | **-** | **0.5** |
| **Total recognised in the statement of profit and loss** | **1.2** | **0.1** | **1.3** |

## 1. Basis of preparation and accounting policies (continued)

### 1.3. Changes in significant accounting policies (continued)

#### (b) Amendments to IAS 12 'Income taxes': 'Income Tax Consequences of Payments on Instruments Classified as Equity'

On 1 January 2019, the Group adopted the amendments to IAS 12, which were issued as part of the annual improvement cycle. The amendments clarify that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised.

The amendments impact the recognition of income tax relief on distributions on the Group's capital securities which are included in equity. Previously, the Group recognised the income tax relief directly in equity. Following adoption, the income tax relief is recognised in the statement of profit or loss, as this is where the transactions and events that generated the distributable profits are recognised.

**Transition and impacts**

The amendments are accounted for retrospectively. As such, comparatives for the six months ended 30 June 2018 have been restated to reduce the tax charge and increase profit after tax by £1.3 million.

In the six months ended 30 June 2019, tax relief of £1.3 million is recognised in the statement of profit and loss.

#### (c) Securitisation transactions

In June 2019, the Group securitised certain variable and fixed rate mortgage loans included within loans and advances to customers, by transferring the beneficial interest in such loans to a bankruptcy remote special purpose vehicle (SPV). The Group has assessed that it controls the SPV and as such, the SPV is treated as a subsidiary and is fully consolidated.

The terms of the securitisation are such that the Group retains substantially all the risks and rewards associated with the underlying transferred loans. As such, the criteria for derecognising financial assets are not met. Accordingly, the transfer of loans to the SPV are not treated as sales by the Group and the Group continues to recognise the loans in their entirety in loans and advances to customers in the statement of financial position.

The securitisation involves the simultaneous issue of mortgage backed debt securities by the SPV to investors. Issued debt securities are classified on initial recognition as either financial liabilities or equity instruments, in accordance with the substance of the contractual arrangements. Where the contractual arrangements do not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments, the debt securities are classified as equity instruments. Where the Group does have a present obligation, the debt securities are classified as financial liabilities.

The contractual arrangements of the securitisation are such that the Group has an obligation to deliver the cash flows generated from the underlying securitised loans to the debt security holder. Accordingly, the debt securities are classified as financial liabilities measured at amortised cost and are presented as debt securities in issue in the statement of financial position.

#### (d) Long-term incentive plan

In April 2019, the Group introduced a long-term incentive plan for a set of individuals. The plan is accounted for as an employee benefit and meets the definition of an 'other long-term employee benefit'. These long-term employee benefits are recognised at the present value of the obligation at the reporting date, reflecting the Group's best estimate of the effect of the associated performance conditions. Costs are recognised as a payroll cost in administrative expenses over the period until which the Group considers all vesting conditions to have been reasonably achieved, which takes into account the period that employees are required to provide services.

#### (e) Derivative financial instruments

From March 2019, the Group began transacting in swaps linked to Sterling Overnight Indexed Average rate (SONIA), rather than London Inter Bank Offer Rate (LIBOR) as previously used, in order to mitigate the Group's exposure to LIBOR in preparation for LIBOR demise.

Accounting policies for derivatives are unchanged. However, it should be noted that in calculating fair values for non-collateralised positions, the Group uses discount curves based on term LIBOR rates for derivatives referencing LIBOR and SONIA rates for derivatives referencing SONIA.

## 1. Basis of preparation and accounting policies (continued)

### 1.4. Critical accounting estimates and judgements

The preparation of the condensed consolidated interim financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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.

In the current six month period, the critical accounting estimates and judgements identified by the Group are the same as detailed in Note 1.9 of the Group's 2018 Annual Report and Accounts, with the exception of 'investment in associates' which has been removed. Determining whether the investment in 'The Mortgage Lender' should be accounted for as an associate was a one-off judgement disclosed as a significant area of judgement in the year ended 31 December 2018. No further judgement is required and as such, this has been removed as an area of significant judgement.

Updates relating to the Group's remaining critical accounting estimates and judgements are provided below:

**Effective interest rate:** The methodology used and the assumptions applied are unchanged.

**Impairment of goodwill:** No indicators of impairment were identified and as such, impairment testing has not been reperformed as at 30 June 2019. See Note 11 for details.

**Customer remediation and conduct issues:** The methodology used in deriving the provision is unchanged. The key assumptions applied are also consistent, however these have been updated to reflect current information on existing claim data. This has led to some minor amendments to assumptions such as estimated complaint volumes and some estimated claim uphold rates.

**Impairment loss on financial assets:** The methodology used in deriving the loss allowance on financial assets is unchanged. The key assumptions applied are also consistent, however these have been updated to reflect the Group's latest monitoring results. This has led to some changes to model based judgements and certain forward looking assumptions for some portfolios.

## 2. Operating segments

The Group has four reportable operating segments. These are the Group's three lending divisions (Property Finance, Business Finance and Consumer Lending) and a central segment representing the savings business, central functions and shared central costs. A description of the operations of each of the reportable operating segments is included in Note 3 of the Group's 2018 Annual Report and Accounts.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group is included below for the six months ended 30 June 2019 and 2018, respectively. All revenue for each operating segment is earned from external customers. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to segments as they are managed on a Group basis.

| **For the six months ended 30 June 2019 (Unaudited)** | **Property Finance £m** | **Business Finance £m** | **Consumer Lending £m** | **Central £m** | **Total £m** |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate method | 104.1 | 52.4 | 35.1 | 3.7 | 195.3 |
| Interest expense and similar charges | (31.3) | (9.8) | (5.3) | (5.4) | (51.8) |
| **Net interest income / (expense)** | 72.8 | 42.6 | 29.8 | (1.7) | 143.5 |
| | | | | | |
| Operating lease rentals | - | 5.1 | - | - | 5.1 |
| Depreciation on operating leases | - | (4.3) | - | - | (4.3) |
| Other operating lease income | - | 0.1 | - | - | 0.1 |
| **Net income from operating leases** | - | 0.9 | - | - | 0.9 |
| | | | | | |
| Fee and commission income | 0.1 | 4.6 | 0.2 | - | 4.9 |
| Fee and commission expense | (1.6) | (0.1) | (2.3) | (0.4) | (4.4) |
| **Net fee and commission income / (expense)** | (1.5) | 4.5 | (2.1) | (0.4) | 0.5 |
| | | | | | |
| Net losses on financial instruments mandatorily at fair value through profit or loss | - | - | - | (0.1) | (0.1) |
| | | | | | |
| **Net operating income / (expense)** | 71.3 | 48.0 | 27.7 | (2.2) | 144.8 |
| | | | | | |
| Administrative expenses | (10.8) | (11.7) | (8.7) | (38.9) | (70.1) |
| Impairment losses on financial assets | (1.7) | (4.1) | (12.6) | - | (18.4) |
| Provisions for liabilities and charges | 0.1 | 0.1 | (0.8) | - | (0.6) |
| **Total operating expenses** | (12.4) | (15.7) | (22.1) | (38.9) | (89.1) |
| | | | | | |
| Share of results of associates | (0.1) | - | - | - | (0.1) |
| | | | | | |
| **Profit / (loss) before tax** | 58.8 | 32.3 | 5.6 | (41.1) | 55.6 |

## 2. Operating segments (continued)

| For the six months ended 30 June 2018 (Unaudited) | Property Finance £m | Business Finance £m | Consumer Lending £m | Central £m | Total £m |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate method | 94.6 | 39.7 | 32.4 | 1.9 | 168.6 |
| Other interest and similar income | - | - | - | 0.7 | 0.7 |
| Interest expense and similar charges | (23.0) | (7.2) | (4.8) | (5.4) | (40.4) |
| Net interest income / (expense) | 71.6 | 32.5 | 27.6 | (2.8) | 128.9 |
| | | | | | |
| Operating lease rentals | - | 4.9 | - | - | 4.9 |
| Depreciation on operating leases | - | (3.7) | - | - | (3.7) |
| Other operating lease expense | - | (0.4) | - | - | (0.4) |
| Net income from operating leases | - | 0.8 | - | - | 0.8 |
| | | | | | |
| Fee and commission income | 0.2 | 4.8 | 0.5 | 0.1 | 5.6 |
| Fee and commission expense | (1.5) | (0.3) | (2.0) | (0.2) | (4.0) |
| Net fee and commission income / (expense) | (1.3) | 4.5 | (1.5) | (0.1) | 1.6 |
| | | | | | |
| Net losses on financial instruments mandatorily at fair value through profit or loss | - | - | - | (0.5) | (0.5) |
| | | | | | |
| Net operating income / (expense) | 70.3 | 37.8 | 26.1 | (3.4) | 130.8 |
| | | | | | |
| Administrative expenses | (8.0) | (10.3) | (8.7) | (34.4) | (61.4) |
| Impairment losses on financial assets[1,2] | | | | | |
| - *Impairment losses on financial assets (excluding insurance recovery)* | *(1.2)* | *0.3* | *(12.9)* | *-* | *(13.8)* |
| - *Insurance recovery* | *-* | *10.0* | *-* | *-* | *10.0* |
| | (1.2) | 10.3 | (12.9) | - | (3.8) |
| Provisions for liabilities and charges[2] | - | (0.3) | (1.8) | (0.4) | (2.5) |
| Total operating expenses | (9.2) | (0.3) | (23.4) | (34.8) | (67.7) |
| | | | | | |
| Profit / (loss) before tax | 61.1 | 37.5 | 2.7 | (38.2) | 63.1 |

[1] During the six months ended 30 June 2018, the Group received £10.0 million from the Group's insurance claim in respect of the controls breach identified in the Business Finance division in 2016. To allow for meaningful comparison between the reported periods, subtotals have been provided to present the insurance recovery separately.

[2] Comparatives for the six months ended 30 June 2018 were restated to reclass £0.3 million of expected credit losses on loan commitments from impairment losses on financial assets to provisions for liabilities and charges.

## 2. Operating segments (continued)

The following tables present information of the assets and liabilities of the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively:

| **As at 30 June 2019 (Unaudited)** | **Property Finance £m** | **Business Finance £m** | **Consumer Lending £m** | **Central £m** | **Total £m** |
|---|---|---|---|---|---|
| Assets | **4,135.0** | **1,614.3** | **728.6** | **1,193.1** | **7,671.0** |
| Liabilities | **-** | **-** | **-** | **(6,952.0)** | **(6,952.0)** |
| **Net assets / (liabilities)** | **4,135.0** | **1,614.3** | **728.6** | **(5,758.9)** | **719.0** |

| As at 31 December 2018 (Audited) | Property Finance £m | Business Finance £m | Consumer Lending £m | Central £m | Total £m |
|---|---|---|---|---|---|
| Assets | 3,705.6 | 1,433.4 | 741.0 | 944.9 | 6,824.9 |
| Liabilities | - | - | - | (6,143.8) | (6,143.8) |
| Net assets / (liabilities) | 3,705.6 | 1,433.4 | 741.0 | (5,198.9) | 681.1 |

## 3. Interest and similar income

| **For the six months ended 30 June (Unaudited)** | **2019 £m** | 2018 £m |
|---|---|---|
| **Interest income calculated using the effective interest rate method** | | |
| On cash and balances at central banks | **2.6** | 1.9 |
| On loans and advances to customers | **191.6** | 166.7 |
| On investment securities | **1.1** | - |
| **Total interest income calculated using the effective interest rate method** | **195.3** | 168.6 |
| | | |
| **Other interest and similar income** | | |
| On derivative financial instruments | **-** | 0.7 |
| **Total other interest and similar income** | **-** | 0.7 |
| | | |
| **Total interest and similar income** | **195.3** | 169.3 |

Interest income recognised during the six months ended 30 June 2019 on Stage 3 loans is £3.1 million (30 June 2018: £2.0 million). The Group did not capitalise any interest income in either reported period.

## 4. Interest expense and similar charges

| **For the six months ended 30 June (Unaudited)** | **2019 £m** | 2018 £m |
|---|---|---|
| On amounts due to banks | **4.7** | 2.1 |
| On customer deposits | **43.7** | 35.0 |
| On derivative financial instruments | **(0.3)** | - |
| On debt securities in issue | **0.4** | - |
| On lease liabilities | **0.1** | - |
| On subordinated debt liability | **3.2** | 3.2 |
| Other interest | - | 0.1 |
| **Total interest expense and similar charges** | **51.8** | 40.4 |

## 5. Administrative expenses

| For the six months ended 30 June (Unaudited) | 2019 £m | 2018 £m |
|---|---|---|
| Payroll costs | **35.8** | 32.3 |
| Depreciation[1] | **1.6** | 1.0 |
| Loss on disposal of property, plant and equipment | **0.1** | - |
| Amortisation of intangible assets | **4.0** | 3.0 |
| Rental expense[2] | **0.5** | 1.1 |
| Other administrative expenses | **28.1** | 24.0 |
| **Total administrative expenses** | **70.1** | 61.4 |

Payroll costs include share-based payment charges, as detailed in Note 6.

## 6. Employee share-based payment transactions

The employee share-based payment charge recognised as part of payroll costs in administrative expenses comprises:

| For the six months ended 30 June (Unaudited) | 2019 £m | 2018 £m |
|---|---|---|
| Management Incentive Plan | **0.7** | - |
| **Total share-based payments** | **0.7** | - |

There were no share-based awards at any point during 2018. Movements in the number of share-based awards during the six months ended 30 June 2019 are as follows:

| Six months ended 30 June 2019 (Unaudited) | Management Incentive Plan (No. of shares) | Total (No. of shares) |
|---|---|---|
| **As at 1 January 2019** | **-** | **-** |
| Granted | **5,275** | **5,275** |
| **As at 30 June 2019** | **5,275** | **5,275** |

Details of the share-based schemes in operation are as follows:

**Management Incentive Plan:**
In April 2019, the Management Incentive Plan was introduced for a set of individuals. The scheme is deemed to be an equity-settled scheme and has been accounted for as such in the condensed consolidated interim financial statements.

Individuals included in the Management Incentive Plan were entitled to acquire non-voting 'B' Class ordinary shares in Marlin Bidco Limited, the ultimate parent company, subject to performance conditions. All shares were issued at a price of £135.00 per share.

The performance conditions for the Management Incentive Plan relate to the equity valuation of the Company in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

[1] Includes depreciation of all asset categories included in property, plant and equipment, except the assets on operating leases category, which is presented as a separate line item in the statement of profit and loss. The six months ended 30 June 2019 includes depreciation on right-of-use assets recognised in accordance with IFRS 16. As such, results are not directly comparable. See Note 1.3(a) for details.

[2] Rental expense in the six months ended 30 June 2019 reflects rental expense on short-term lease contracts calculated in accordance with IFRS 16. Rental expense in the six months ended 30 June 2018 reflects rental expense on operating leases calculated in accordance with IAS 17. As such, results are not directly comparable. See Note 1.3(a) for details.

## 6. Employee share-based payment transactions (continued)

The average fair value of the shares issued was £580.00. The fair value of the shares at the grant date were valued using a Monte Carlo valuation model. A summary of the key data and assumptions used in measuring the fair value at grant date and measurement date is shown below:

| **Assumptions (Unaudited)** | **30 Jun 2019** | **29 Apr 2019 (Grant date)** |
|---|---|---|
| Expected volatility | **28%** | **28%** |
| Dividend yield | **0%** | **0%** |
| Risk-free rate of return | **0.90%** | **0.90%** |
| Expected life | **3.5 years** | **3.7 years** |

## 7. Impairment losses on financial assets

Impairment losses on financial assets relate to the Group's loans and advances to customers.

During the six months ended 30 June 2018, the Group received £10.0 million from the Group's insurance claim in respect of the controls breach identified in the Business Finance division in 2016. To allow for meaningful comparison between the reported periods, the insurance recovery has been separately presented in both the condensed consolidated statement of profit and loss and the below table.

| **For the six months ended 30 June (Unaudited)** | **2019 £m** | 2018 £m |
|---|---|---|
| **Impairment losses on financial assets (excluding insurance recovery)** | | |
| Movement in loss allowance in the period[1] | **4.0** | 3.5 |
| Loan balances written-off in the period | **17.3** | 12.3 |
| Amounts recovered in the period in respect of loan balances previously written-off (excluding insurance recovery) | **(2.9)** | (2.0) |
| **Total impairment losses on financial assets (excluding insurance recovery)** | **18.4** | 13.8 |
| | | |
| **Insurance recovery** | **-** | (10.0) |
| | | |
| **Total impairment losses on financial assets** | **18.4** | 3.8 |

## 8. Tax

The tax charge is recognised based on Management's estimate of the weighted average annual tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted average annual tax rate but are recognised in the relevant period. The estimated tax rate used in the condensed consolidated interim financial statements may differ from Management's estimate of the tax rate for the annual financial statements.

The estimated average annual tax rate used in both the six months ended 30 June 2019 and the six months ended 30 June 2018 was 24%[2].

Based on the above tax rates, the tax charge recognised in the statement of profit and loss is £13.5 million (30 June 2018: £15.1 million[3]).

[1] Comparatives for the six months ended 30 June 2018 were restated to reflect reclass of £0.3 million of expected credit losses on loan commitments in the statement of profit and loss, from impairment losses on financial assets to provisions for liabilities and charges.

[2] The estimated average annual tax rate for the six months ended 30 June 2018 is based on the restated comparative figures reflecting the amendments to IAS 12. See Note 1.3(b) for details.

[3] Comparatives for the six months ended 30 June 2018 were restated to reflect amendments to IAS 12. See Note 1.3(b) for details.

## 9. Loans and advances to customers

### (a) Analysis of loans and advances to customers

| | **30 Jun 2019 (Unaudited)** | | | 31 Dec 2018 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Gross carrying amount £m** | **Loss allowance £m** | **Carrying amount £m** | Gross carrying amount £m | Loss allowance £m | Carrying amount £m |
| Loan receivables | **5,981.7** | **(57.5)** | **5,924.2** | 5,410.4 | (54.1) | 5,356.3 |
| Finance lease receivables | **91.5** | **(6.5)** | **85.0** | 95.0 | (7.2) | 87.8 |
| Instalment credit receivables | **428.4** | **(7.8)** | **420.6** | 409.4 | (6.5) | 402.9 |
| | **6,501.6** | **(71.8)** | **6,429.8** | 5,914.8 | (67.8) | 5,847.0 |
| Fair value adjustments for hedged risk | | | **10.7** | | | (1.1) |
| **Total loans and advances to customers** | | | **6,440.5** | | | 5,845.9 |

Total loans and advances to customers include:

- £1,310.4 million (31 December 2018: £1,402.7 million) positioned with the Bank of England for use as collateral under its Term Funding Scheme and Indexed Long-Term Repo operations.
- £185.7 million (31 December 2018: £206.9 million) pledged as collateral against secured bank borrowings.
- £294.9 million (31 December 2018: £nil) pledged to securitisation programmes (see Note 10).

Further analysis of the Group's loans and advances to customers can be found in the creditworthiness risk section of the Interim Risk Management Report on page 11.

### (b) Analysis of the loss allowance

| | **30 Jun 2019 (Unaudited)** | | | | 31 Dec 2018 (Audited) | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| Loan receivables | **21.7** | **18.7** | **17.1** | **57.5** | 20.5 | 18.3 | 15.3 | 54.1 |
| Finance lease receivables | **0.9** | **0.4** | **5.2** | **6.5** | 0.5 | 1.1 | 5.6 | 7.2 |
| Instalment credit receivables | **3.1** | **1.6** | **3.1** | **7.8** | 2.5 | 1.3 | 2.7 | 6.5 |
| **Loss allowance** | **25.7** | **20.7** | **25.4** | **71.8** | 23.5 | 20.7 | 23.6 | 67.8 |

## 9. Loans and advances to customers (continued)

The below table provides an analysis of movements in the loss allowance during the six months ended 30 June 2019, together with the loss allowance coverage:

| Six months ended 30 June 2019 (Unaudited) | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| **As at 1 January 2019** | **23.5** | **20.7** | **23.6** | **67.8** |
| | | | | |
| **Movements in loss allowance** | | | | |
| Transfer to Stage 1 | **5.6** | **(5.4)** | **(0.2)** | **-** |
| Transfer to Stage 2 | **(1.7)** | **2.7** | **(1.0)** | **-** |
| Transfer to Stage 3 | **(1.2)** | **(4.9)** | **6.1** | **-** |
| New financial assets originated or purchased | **4.1** | **0.2** | **0.1** | **4.4** |
| Financial assets that have been derecognised | **(2.0)** | **(1.5)** | **(2.3)** | **(5.8)** |
| Changes in credit risk | **(2.1)** | **8.2** | **7.7** | **13.8** |
| Modifications without derecognition | **(0.5)** | **0.7** | **2.2** | **2.4** |
| Write-offs | **-** | **-** | **(10.8)** | **(10.8)** |
| **Total movement in loss allowance** | **2.2** | **-** | **1.8** | **4.0** |
| | | | | |
| **As at 30 June 2019** | **25.7** | **20.7** | **25.4** | **71.8** |
| | | | | |
| **Loss allowance coverage as at 30 June 2019 (%)** | **0.5%** | **2.2%** | **23.8%** | **1.1%** |

Total loss allowance increased by £4.0 million in the six months ended 30 June 2019. Significant changes in the gross carrying amount of loans and advances to customers that contributed to the changes in the loss allowance in the six months ended 30 June 2019 were as follows:

| Six months ended 30 June 2019 (Unaudited) | £m |
|---|---|
| **Significant movements in gross carrying amount** | |
| Gross new lending | **2,938.5** |
| Loan acquisitions | **137.9** |
| Gross principal repayments | **(2,467.0)** |
| Write-offs | **(17.3)** |

Further analysis of the Group's loss allowance can be found in the creditworthiness risk section of the Interim Risk Management Report on page 11.

## 10. Securitisation

*See accounting policies in Note 1.3(c)*

In June 2019, the Group securitised certain variable and fixed rate mortgage loans included within loans and advances to customers. The securitised loans, originated by the Group's principal subsidiary, Shawbrook Bank Limited, were transferred to a bankruptcy remote special purpose vehicle (SPV), Shawbrook Mortgage Funding 2019-1 plc. The SPV is treated as a subsidiary of the Group and is fully consolidated.

The securitisation provides long-term funding to the Group through the simultaneous issue of mortgage backed debt securities by the SPV to external investors (see Note 13).

The Group continues to service the transferred loans in return for an administration fee and is entitled to any residual income from the SPV after the debt obligations and senior expenses of the securitisation programme have been met.

## 10. Securitisation (continued)

The transfer of loans to the SPV are not treated as sales by the Group and the Group continues to recognise the loans in their entirety in loans and advances to customers in the statement of financial position. As such, no gains or losses have been recognised on pledging the loans to the securitisation programme.

The following table sets out the carrying amounts and fair values of all transferred loans and the associated debt securities in issue:

| As at 30 June 2019 (Unaudited) | Carrying amount £m | Fair value £m |
|---|---|---|
| Loans securitised | **294.9** | **310.9** |
| Debt securities in issue | **248.8** | **250.4** |

## 11. Intangible assets

| | 30 Jun 2019 (Unaudited) £m | 31 Dec 2018 (Audited) £m |
|---|---|---|
| Goodwill | **43.7** | 43.7 |
| Computer software | **23.4** | 22.7 |
| **Total intangible assets** | **67.1** | 66.4 |

### Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units (CGUs), which are also the Group's reportable operating segments. These are: Property Finance, Business Finance and Consumer Lending.

The Group's annual impairment test for goodwill takes place as at 31 December and is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the CGUs were disclosed in Note 1.9(b) of the Group's 2018 Annual Report and Accounts.

In December 2018, the annual impairment test led to an impairment loss of £1.1 million being recognised against the goodwill allocated to the Consumer Lending CGU, reducing the carrying amount of goodwill in this CGU to £nil. No impairment losses were recognised against the goodwill allocated to the Property Finance or Business Finance CGUs.

As at 30 June 2019, Management performed a review for any indicators of impairment in the Property Finance and Business Finance CGUs. No indicators of impairment were identified and as such, impairment testing has not been reperformed as at 30 June 2019.

The carrying amount of goodwill allocated to each CGU, after impairment losses, is as follows:

| | 30 Jun 2019 (Unaudited) £m | 31 Dec 2018 (Audited) £m |
|---|---|---|
| Property Finance | **9.0** | 9.0 |
| Business Finance | **34.7** | 34.7 |
| **Total goodwill** | **43.7** | 43.7 |

## 12. Provisions for liabilities and charges

| Six months ended 30 June 2019 (Unaudited) | Loss provision £m | Other provisions £m | Total £m |
|---|---|---|---|
| **As at 1 January 2019** | **1.0** | **10.6** | **11.6** |
| Provisions utilised in the period | **-** | **(4.0)** | **(4.0)** |
| Provisions made / (released) in the period | **(0.1)** | **0.7** | **0.6** |
| **As at 30 June 2019** | **0.9** | **7.3** | **8.2** |

### (a) Loss provision

Loss provision represents the loss allowance on loan commitments. The below table shows further analysis of the movements in the loss allowance in respect of loan commitments:

| Six months ended 30 June 2019 (Unaudited) | Stage 1 £m | Stage 2 £m | Total £m |
|---|---|---|---|
| **As at 1 January 2019** | **1.0** | **-** | **1.0** |
| | | | |
| **Movements in loss allowance** | | | |
| Transfer to Stage 2 | **(0.1)** | **0.1** | **-** |
| New financial assets originated or purchased | **0.1** | **-** | **0.1** |
| Changes in credit risk | **(0.2)** | **-** | **(0.2)** |
| **Total movement in loss allowance** | **(0.2)** | **0.1** | **(0.1)** |
| | | | |
| **As at 30 June 2019** | **0.8** | **0.1** | **0.9** |

### (b) Other provisions

Other provisions include:

- £0.4 million (31 December 2018: £0.4 million) relating to the Financial Services Compensation Scheme. The amount provided is based on information received from the Financial Services Compensation Scheme, forecast future interest rates and the Group's historic share of industry protected deposits.
- £6.9 million (31 December 2018: £10.2 million) relating to potential instances of misrepresentation or breaches of contract by suppliers where the suppliers have become insolvent, and therefore the Group has limited recourse to those suppliers.

## 13. Debt securities in issue

*See accounting policies in Note 1.3(c)*

In June 2019, a Group company, Shawbrook Mortgage Funding 2019-1, issued £250.0 million of sterling mortgage backed floating rate Class A notes to external investors as part of the Group's securitisation programme (see Note 10). The notes are secured on a portfolio of variable and fixed rate mortgage loans.

The notes bear interest on their principal amount at an initial rate of Compounded Daily SONIA plus 1.12% per annum, until the optional redemption date of 16 September 2022. Interest is payable quarterly in arrears in March, June, September and December, commencing 16 September 2019.

The final maturity date of the notes is 16 December 2050. The final maturity date of the notes is later than the final repayment date of any of the underlying loans.

The notes may be redeemed in part from time to time, but such redemptions are limited to the principal repayments received from borrowers in respect of the underlying loans. The notes may all be repurchased by the Group at any interest payment date on or after the optional redemption date, or at any interest payment date when the current balance of the loans outstanding is less than or equal to ten percent of the principal amount outstanding on the notes on the date they were issued. Based on the foregoing, it is likely that a large proportion of the notes will be repaid within five years.

The Group's obligations to the note holders are limited to the cash flows (principal and interest) generated from the underlying loans.

## 13. Debt securities in issue (continued)

Movements in debt securities are as follows:

| Six months ended 30 June 2019 (Unaudited) | £m |
|---|---|
| **As at 1 January 2019** | **-** |
| Issues | **250.0** |
| Interest expense and similar charges | **0.4** |
| Capitalised costs | **(1.6)** |
| **As at 30 June 2019** | **248.8** |

It should be noted that, as part of the securitisation programme, further sterling mortgage backed floating rate notes (Class B, C and Z) amounting to £45.9 million were issued by Shawbrook Mortgage Funding 2019-1 plc and were retained by the Group and are therefore not recognised in the condensed consolidated interim financial statements.

## 14. Notes to the statement of cash flows

### (a) Net change in operating assets

| For the six months ended 30 June (Unaudited) | 2019 £m | 2018 £m |
|---|---|---|
| Increase in mandatory deposits with central banks[1] | **(1.1)** | (3.4) |
| Increase in loans and advances to customers | **(598.6)** | (464.8) |
| Increase / (decrease) in derivative financial assets | **(0.1)** | 0.1 |
| Increase in operating lease assets | **(7.6)** | (1.4) |
| Increase in other assets[2] | **(2.1)** | (7.5) |
| **Increase in operating assets** | **(609.5)** | (477.0) |

### (b) Net change in operating liabilities

| For the six months ended 30 June (Unaudited) | 2019 £m | 2018 £m |
|---|---|---|
| Increase in customer deposits | **552.3** | 246.4 |
| (Decrease) / increase in provisions for liabilities and charges[3] | **(3.4)** | 2.4 |
| Increase in derivative financial liabilities | **10.9** | 1.4 |
| Decrease in other liabilities | **(2.1)** | (29.9) |
| **Increase in operating liabilities** | **557.7** | 220.3 |

[1] Mandatory deposits with central banks are not available for use in day-to-day operations and are non-interest bearing.

[2] Comparatives for the six months ended 30 June 2018 were restated to reclass the Group's £6.0 million purchase of shares in The Mortgage Lender, from movement in operating assets to cash flows from investing activities under purchase of shares in associates.

[3] Comparatives for the six months ended 30 June 2018 were restated to reflect the reclass of £0.3 million of expected credit losses on loan commitments in the statement of profit and loss, from impairment losses on financial assets to provisions for liabilities and charges.

## 15. Financial instruments

### (a) Classification of financial instruments

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

There were no reclassifications of financial assets or liabilities during either of the reported periods.

| | 30 Jun 2019 (Unaudited) | | | 31 Dec 2018 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Mandatorily at FVTPL £m** | **Amortised cost £m** | **Carrying amount £m** | Mandatorily at FVTPL £m | Amortised cost £m | Carrying amount £m |
| **Financial assets** | | | | | | |
| Cash and balances at central banks | **-** | **812.0** | **812.0** | - | 645.2 | 645.2 |
| Loans and advances to banks | **-** | **62.9** | **62.9** | - | 50.6 | 50.6 |
| Loans and advances to customers | **-** | **6,440.5** | **6,440.5** | - | 5,845.9 | 5,845.9 |
| Investment securities | **-** | **197.0** | **197.0** | - | 139.9 | 139.9 |
| Derivative financial assets | **1.7** | **-** | **1.7** | 1.6 | - | 1.6 |
| **Total financial assets** | **1.7** | **7,512.4** | **7,514.1** | 1.6 | 6,681.6 | 6,683.2 |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Amounts due to banks | **-** | **1,019.8** | **1,019.8** | - | 1,029.4 | 1,029.4 |
| Customer deposits | **-** | **5,530.2** | **5,530.2** | - | 4,977.9 | 4,977.9 |
| Derivative financial liabilities | **16.6** | **-** | **16.6** | 5.7 | - | 5.7 |
| Debt securities in issue | **-** | **248.8** | **248.8** | **-** | **-** | - |
| Lease liabilities | **-** | **10.3** | **10.3** | **-** | **-** | - |
| Subordinated debt liability | **-** | **75.5** | **75.5** | - | 75.5 | 75.5 |
| **Total financial liabilities** | **16.6** | **6,884.6** | **6,901.2** | 5.7 | 6,082.8 | 6,088.5 |

### (b) Fair value of financial instruments

Except where detailed below, the valuation techniques applied by the Group to calculate the fair values of its financial assets and liabilities remain unchanged from the year ended 31 December 2018. Details are provided in Note 31 of the 2018 Annual Report and Accounts.

In the six months ended 30 June 2019, there is one new financial liability category, debt securities in issue. The valuation techniques applied by the Group to determine the fair value of this new financial liability category is as follows:

- **Debt securities in issue:** Fair values are based on quoted prices where available, or by discounting cash flows using market rates.

In accordance with IFRS 7, fair value disclosures are not required for lease liabilities. Accordingly, lease liabilities are not included in the below tables.

The Group uses a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 15. Financial instruments (continued)

The table below analyses the Group's financial instruments measured at amortised cost (excluding lease liabilities) into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported periods.

| | 30 Jun 2019 (Unaudited) Level 3 £m | Level 2 £m | Level 1 £m | 31 Dec 2018 (Audited) Level 3 £m | Level 2 £m | Level 1 £m |
|---|---|---|---|---|---|---|
| **Financial assets (at amortised cost)** | | | | | | |
| Cash and balances at central banks | **-** | **-** | **812.0** | - | - | 645.2 |
| Loans and advances to banks | **-** | **62.9** | **-** | - | 50.6 | - |
| Loans and advances to customers | **6,440.5** | **-** | **-** | 5,845.9 | - | - |
| Investment securities | **-** | **-** | **197.0** | - | - | 139.9 |
| **Financial liabilities (at amortised cost)** | | | | | | |
| Amounts due to banks | **-** | **1,019.8** | **-** | - | 1,029.4 | - |
| Customer deposits | **-** | **5,530.2** | **-** | - | 4,977.9 | - |
| Debt securities in issue | **-** | **248.8** | **-** | - | - | - |
| Subordinated debt liability | **-** | **75.5** | **-** | - | 75.5 | - |

The table below analyses the Group's financial instruments measured at fair value into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported periods.

| | 30 Jun 2019 (Unaudited) Level 3 £m | Level 2 £m | Level 1 £m | 31 Dec 2018 (Audited) Level 3 £m | Level 2 £m | Level 1 £m |
|---|---|---|---|---|---|---|
| **Financial assets (at fair value)** | | | | | | |
| Derivative financial assets | - | **1.7** | - | - | 1.6 | - |
| **Financial liabilities (at fair value)** | | | | | | |
| Derivative financial liabilities | - | **16.6** | - | - | 5.7 | - |

The below table shows a comparison of the carrying amounts per the statement of financial position and the fair value for the Group's financial instruments measured at amortised cost (excluding lease liabilities):

| | 30 Jun 2019 (Unaudited) Carrying amount £m | Fair value £m | 31 Dec 2018 (Audited) Carrying amount £m | Fair value £m |
|---|---|---|---|---|
| **Financial assets (at amortised cost)** | | | | |
| Cash and balances at central banks | **812.0** | **812.0** | 645.2 | 645.2 |
| Loans and advances to banks | **62.9** | **62.9** | 50.6 | 50.6 |
| Loans and advances to customers | **6,440.5** | **6,560.9** | 5,845.9 | 6,105.8 |
| Investment securities | **197.0** | **197.3** | 139.9 | 139.0 |
| **Financial liabilities (at amortised cost)** | | | | |
| Amounts due to banks | **1,019.8** | **1,008.0** | 1,029.4 | 1,014.8 |
| Customer deposits | **5,530.2** | **5,531.6** | 4,977.9 | 4,972.8 |
| Debt securities in issue | **248.8** | **250.4** | - | - |
| Subordinated debt liability | **75.5** | **74.3** | 75.5 | 78.0 |

## 16. Subsidiary companies

The Company's subsidiaries were detailed in Note 33 of the Group's 2018 Annual Report and Accounts. During the period ended 30 June 2019, the following changes have taken place:

**Shawbrook International Limited:**
As at 30 June 2019, Shawbrook International Limited meets the criteria of a disposal Group classified as held for sale. The assets and liabilities of Shawbrook International Limited have not been separately disclosed as held for sale in the condensed consolidated statement of financial position as they are not material to the Group.

**Centric Group Finance Limited**:
Dissolved on 12 February 2019.

**Shawbrook Mortgage Funding 2019-1 plc:**
This is a new securitisation vehicle. The share capital is not owned by the Group, but it is included in the condensed consolidated interim financial statements as it is controlled by the Group. See Note 10 for further details.

## 17. Related party transactions

The Group's related party transactions were detailed in Note 34 of the Group's 2018 Annual Report and Accounts.

In the six months ended 30 June 2019, new related party transactions took place in the form of loans issued to certain employees. In all other aspects, related party transactions for the six months ended 30 June 2019 are similar in nature to those disclosed for the year ended 31 December 2018.

There have been no changes in related party transactions that have had a material effect on the financial position or performance of the Group in the six months ended 30 June 2019.

## 18. Contingent liabilities

Contingent liabilities as at 30 June 2019, are unchanged from those identified and disclosed as at 31 December 2018, as detailed in Note 37 of the Group's 2018 Annual Report and Accounts.

## 19. Post balance sheet events

The Board assesses strategy continuously to ensure capital and resources are deployed in the most optimal way. As a result of this continuous review, the Board is considering its strategic options regarding the Consumer Lending business, which may result in an exit from that market.  This will not affect the Group's Savings business, which will continue to offer a wide range of cash savings solutions with a focus on customer service as the Group seeks to further diversify its funding sources.

There have been no other significant events between 30 June 2019 and the date of approval of the Interim Financial Report that require a change or additional disclosure in the condensed consolidated interim financial statements.

## Other information

### Alternative performance measures

Certain financial measures disclosed in the Interim Financial Report do not have a standardised meaning prescribed by 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'. Definitions of the Group's key performance indicators are set out below:

| | |
|---|---|
| **Average principal employed** | The average of monthly closing loans and advances to customers (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment. |
| **Common Equity Tier 1 (CET1) capital ratio** | CET1 capital, divided by, risk-weighted assets. |
| **Cost of risk** | Impairment losses on financial assets, divided by, average principal employed. |
| **Cost to income ratio** | The sum of administrative expenses and provisions for liabilities and charges, divided by, net operating income. |
| **Gross asset yield** | The sum of interest and similar income, net income from operating leases, net fee and commission income and net gains on financial instruments mandatorily at fair value through profit and loss, divided by, average principal employed. |
| **Leverage ratio** | Total Tier 1 capital, divided by, total leverage ratio exposure measure. Total leverage ratio exposure measure is total assets excluding derivatives and intangible assets, and adjusted for off-balance sheet items such as pipeline and undrawn collateral, exposure value for derivatives and transitional adjustments[1]. |
| **Liability yield** | Interest expense and similar charges, divided by, average principal employed. |
| **Liquidity coverage ratio** | Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario. |
| **Loan book** | The sum of loans and advances to customers (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment. |
| **Management expenses ratio** | The sum of administrative expenses and provisions for liabilities and charges, divided by, average principal employed. |
| **Net interest margin** | Net operating income, divided by, average principal employed. |
| **Ratio of Stage 3 loans** | Total of loans and advances to customers classified as Stage 3, divided by, total gross loans and advances to customers. |
| **Return on lending assets after tax** | Profit after tax, divided by, average principal employed. |
| **Return on lending assets before tax** | Profit before tax, divided by, average principal employed. |
| **Return on tangible equity** | Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. Average tangible equity is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two. |
| **Risk-weighted assets** | A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1. |
| **Total capital ratio** | Total regulatory capital, divided by, risk-weighted assets. |
| **Total Tier 1 capital ratio** | Total Tier 1 capital, divided by, risk-weighted assets. |

[1] Transitional adjustments refer to adjustments for phasing in the impact of IFRS 9 adoption in accordance with EU regulatory transitional arrangements.

# Other information (continued)

## Abbreviations

| | |
|---|---|
| **bps** | Basis point |
| **CEBR** | Centre for Economics and Business Research |
| **CET1** | Common Equity Tier 1 |
| **CGU** | Cash generating unit |
| **IAS** | International Accounting Standard |
| **IFRS** | International Financial Reporting Standards |
| **LIBOR** | London Inter Bank Offer Rate |
| **PD** | Probability of default |
| **RBC** | Regional Business Centre |
| **RMBS** | Residential mortgage-backed security |
| **SME** | Small and medium enterprise |
| **SONIA** | Sterling Overnight Indexed Average rate |
| **SPV** | Special purpose vehicle |
| **STL** | Short-term lending |