Shawbrook Bank

Shawbrook Group plc
Interim Financial Report

For the six month period ended 30 June 2020

Proudly different.

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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 its half year report for the six months ended 30 June 2020.

Commenting on the results, Chief Executive Officer Ian Cowie said:
"Since the outbreak of COVID-19, our focus has remained on supporting our staff, customers and partners while at the same time safeguarding the long-term sustainability of our business. When the UK lockdown was announced in March 2020, we acted with speed and agility, moving to an almost entirely remote operation within days. Led by a stable and experienced management team and with the support of new and existing technology, we have continued to operate effectively throughout this period.

While adjusting our business model to adapt to the changed operating environment, we have remained open for business. To help alleviate the short-term impacts of COVID-19 on our customers, we quickly adopted a series of concession options across our product ranges. In May 2020, we also became a Coronavirus Business Interruption Loan Scheme (CBILS) accredited lender, providing a means of further extending support to our existing SME community.

Prior to COVID-19, the Group had continued to make good financial progress, starting 2020 with a strong balance sheet and prudently positioned capital and liquidity base. To further optimise the Group's capital structure, during H1 2020 we initiated a Tier 2 refinancing and, despite the challenging market conditions, successfully completed the £75 million issuance on 10 July 2020. We have also maintained our active position in the UK savings market. However, the longer-term economic impacts of the pandemic remain hard to predict and as a result we have recognised expected credit loss (ECL) charges in the period on loans and advances to customers of £45.8 million and on loan commitments of £1.5 million[1]. While this has clearly had an impact on profitability, our capital strength positions us well to support our customers and grow our business in line with appetite as we enter the second half of the year.

Notwithstanding the pandemic, we have continued to invest in our business to help drive our strategic ambition to become the UK's Specialist SME Lender of Choice. As well as the ongoing deployment of targeted digital solutions across the Property, Consumer lending and Savings businesses, our investment in the development of a new growth platform in our Business Finance franchise will serve to further modernise our offering, delivering an enhanced customer journey as well as significant operational efficiencies.

I would like to convey my thanks to all of our staff who have risen to the current challenge, and shown resilience and professionalism throughout these unprecedented times, while providing the very best service and support to our customers. We continue to work closely with trade bodies, regulators and the industry to ensure we maximise our support to our customers and the wider UK economy.

In line with our approach to date, in H2 2020, we will continue to focus on supporting all of our stakeholders as we begin to transition to the new state of normal. Although significant uncertainties regarding the broader macroeconomic impact and pace of recovery remain, we are cautiously optimistic in our outlook as we start to see signs of momentum returning to certain of our specialist sectors. Our management expertise and prudent approach to credit decisioning, combined with investment in our digital propositions, means we are well positioned to adapt and respond to opportunities as they arise throughout the second half of the year."

[1] ECLs on loans and advances to customers are included in impairment losses on financial assets in the statement of profit and loss, whilst ECLs on loan commitments are included within provisions for liabilities and charges in the statement of profit and loss.

H1 2020 financial and operational highlights

(All results shown below include the full impact of COVID-19)

- Profit before tax for H1 2020 of £5.9 million (H1 2019: £55.6 million).
- ECL charges recognised on loans and advances to customers of £45.8 million (H1 2019: £4.0 million) and on loan commitments of £1.5 million (H1 2019: £0.1 million ECL credit).
- Loan book as at 30 June 2020 is £6.84 billion (31 December 2019: £6.78 billion[1]).
- Customer deposits as at 30 June 2020 total £7.6 billion (31 December 2019: £6.1 billion).
- Capital remains strong with a Common Equity Tier 1 capital ratio as at 30 June 2020 of 12.3% (31 December 2019: 12.0%).
- Full operational functionality preserved throughout the COVID-19 pandemic.
- Over 98% of employees working from home throughout Q2 2020 and no staff furloughed.
- Accreditation received under UK Government's CBILS.
- Continued investment in digitalising our business, with a core focus on our SME franchise.
- A total of 15.9k payment holidays have been granted to support customers, of which 10.8k are still in force[2] as at 30 July 2020.

[1] The total loan book as at 31 December 2019 includes loans classified as assets held for sale of £104.1 million. These were subsequently sold in January 2020.

[2] 'Still in force' is defined as being where the customer is still on a payment holiday (including extensions), or where the first payment holiday has matured and we are in the process of establishing the customer's circumstances to determine whether a further concession would be appropriate.

Financial and business review

Summary of the results for the period

For the six months ended 30 June (Unaudited)	2020 £m	2019 £m	% change
Operating income[1]	**199.6**	196.6	1.5
Interest expense and similar charges	**(61.7)**	(51.8)	(19.1)
Net operating income	**137.9**	144.8	(4.8)
Administrative expenses	**(64.3)**	(70.1)	8.3
Impairment losses on financial assets	**(55.3)**	(18.4)	(200.5)
Provisions for liabilities and charges	**(12.4)**	(0.6)	(1,966.7)
Total operating expenses	**(132.0)**	(89.1)	(48.1)
Share of results of associates	**-**	(0.1)	-
Profit before tax	**5.9**	55.6	(89.4)
Tax	**(0.3)**	(13.5)	97.8
Profit after tax, attributable to owners	**5.6**	42.1	(86.7)

Key performance indicators: financial performance[2,3]

For the six months ended 30 June (Unaudited)	2020 %	2019 %	% change
Gross asset yield	**5.8**	6.5	(0.7)
Liability yield	**(1.8)**	(1.7)	(0.1)
Net interest margin	**4.1**	4.8	(0.7)
Management expenses ratio	**(2.3)**	(2.3)	-
Cost of retail deposits	**1.6**	1.7	(0.1)
Cost to income ratio	**55.6**	48.8	6.8
Cost of risk	**(1.63)**	(0.61)	(1.02)
Return on lending assets before tax	**0.2**	1.8	(1.6)
Return on tangible equity	**0.2**	14.7	(14.5)

Key performance indicators: financial position[2]

	30 Jun 2020 (Unaudited)	31 Dec 2019 (Audited)	% change
Assets and liabilities			
Loan book (£m)[4]	**6,844.5**	6,781.7	0.9
Average principal employed (£m)	**6,819.8**	6,372.6	7.0
Customer deposits (£m)	**7,610.7**	6,109.4	24.6
Wholesale funding (£m)	**1,018.3**	1,122.3	(9.3)
Liquidity			
Liquidity coverage ratio (%)	**403.8**	274.5	129.3
Capital and leverage			
Common Equity Tier 1 capital ratio (%)	**12.3**	12.0	0.3
Total Tier 1 capital ratio (%)	**14.7**	14.5	0.2
Total capital ratio (%)	**16.5**	16.4	0.1
Leverage ratio (%)	**7.7**	8.6	(0.9)
Risk-weighted assets (£m)	**5,110.8**	4,974.5	2.7

[1] Includes interest income calculated using the effective interest rate method, other interest and similar income, net income from operating leases, net fee and commission (expense)/income, net (losses)/gains on financial instruments mandatorily at fair value through profit or loss, net loss on derecognition of financial assets measured at amortised cost and other operating income/(expense).

[2] Key performance indicators are defined on page 52.

[3] Metrics have been annualised based on the 182 calendar days between January and June in 2020 (2019: 181 calendar days).

[4] The total loan book as at 31 December 2019 includes loans classified as assets held for sale of £104.1 million. These were subsequently sold in January 2020.

Financial and business review (continued)

Commenting on the results, Chief Financial Officer Dylan Minto said:
"After a strong first quarter performance, the second quarter has been impacted by the requirements of IFRS 9 to provide for future ECLs as a result of the adverse macroeconomic outlook. This resulted in ECL charges recognised in the period on our loans and advances to customers of £45.8 million and on loan commitments of £1.5 million[1]. Overall, even after including this, the Group was profitable for the half year, with strong liquidity and capital ratios as a result of the management actions taken in response to possible COVID-19 impacts. Whilst we have started to see a recovery in loan originations across some of our markets, H2 2020 trading performance will be dependent on the speed of economic recovery as the lockdown restrictions ease. However, the longer-term economic impact of COVID-19 remains unclear and will be tested further when the UK Government relief packages are withdrawn and as payment holidays end. We remain focused on optimising our return on capital and trading securely through this cycle by continuing to support our customers' financial needs, which meet our risk and return expectations, whilst selectively investing in our proposition."

Originations – delivering growth
We started the year strongly with above plan performance on originations in the first quarter which fell by 47% in the second quarter as the pandemic and our proactive changes to risk appetite took effect. Despite this reduction and the conclusion of the sale of a £0.1 billion legacy unsecured personal lending portfolio, net lending remained flat across the portfolio, resulting in the loan book increasing by 1% to £6.84 billion (31 December 2019: £6.78 billion).

Diversified funding base
Our funding base remains predominantly retail and SME deposit led. At the start of COVID-19 we decided to prudently increase our liquidity position. The liquidity coverage ratio increased to 404% (31 December 2019: 275%) and customer deposits increased 25% to £7.6 billion (31 December 2019: £6.1 billion). We intend to refinance our exposure to the Term Funding Scheme of £0.8 billion using the new Term Funding Scheme with additional incentives for SMEs, drawing increased amounts to support lending across our SME franchise.

Trading performance impacted by lower new business originations and holding higher liquidity
During the period, operating income increased by 1.5% to £199.6 million (30 June 2019: £196.6 million) reflecting the lower business origination in the second quarter when compared to last year. Our gross asset yield of 5.8% (30 June 2019: 6.5%) reduced as the portfolio mix changed with increased weighting towards property assets as we reduced our higher yielding consumer portfolio, in addition to yield compression resulting from the Bank of England's decision to reduce base rate to 0.10%, impacting our variable rate loan portfolios. Interest expense increased by 19% to £61.7 million due to the growth in customer deposits but the average cost of retail deposits has reduced to 1.6% during the period ended 30 June 2020 (30 June 2019: 1.7%) as we have started to reprice both new and existing deposits.

As a result, the Group's net operating income decreased by 5% to £137.9 million (30 June 2019: £144.8 million) while the net interest margin reduced to 4.1% (30 June 2019: 4.8%).

Continued investment in our proposition
Careful cost management remains a key objective of the Group, however we continued to invest in technology solutions to support our business priorities.

Total administrative expenses reduced to £64.3 million (30 June 2019: £70.1 million). This is a decrease of 8% reflecting careful cost management, increased automation and reduced operational expenses during the lockdown as we moved our whole workforce onto remote home working. We will continue to progress with enhancements to our customer proposition and service as we seek to grow the Group sustainably in our chosen segments.

We continue to provide for liabilities under the Consumer Credit Act with a net charge of £10.9 million included in the period (30 June 2019: £0.7 million). We have experienced an increase in claims in the first half of the year, but have finalised an Interim Payment Agreement on confidential terms with insurers and we continue to engage with them in the ongoing insurance recovery process.

The cost to income ratio increased to 55.6% for H1 2020 (30 June 2019: 48.8%) impacted by the lower operating profit and the increased conduct related provisions for liabilities and charges. If the increased conduct related provision charges were excluded then the underlying cost to income ratio would be 47.7% (30 June 2019: 48.3%).

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[1] ECLs on loans and advances to customers are included in impairment losses on financial assets in the statement of profit and loss, whilst ECLs on loan commitments are included within provisions for liabilities and charges in the statement of profit and loss.

Financial and business review (continued)

Credit quality
Prior to the impact of COVID-19 in March 2020, the Group's arrears and impairment position was continuing to trend favourably, as supported by the benign macroeconomic backdrop. To recognise the economic impact of COVID-19 on the Group's ECLs, we revised our economic assumptions to use a probability weighted blended scenario based on a 30% base case, 60% downside and 10% upside scenario as detailed in the Interim Risk Management Report (see page 17). The impact was an ECL charge on loans and advances to customers of £45.8 million, increasing the total loss allowance from £61.1 million to £106.9 million. As a result, the H1 2020 cost of risk increased to 1.63% (30 June 2019: 0.61%). Additionally, ECL charges of £1.5 million were recognised on loan commitments, increasing the loss provision from £1.0 million to £2.5 million.

We continue to actively support our customers through the effects of COVID-19 with the provision of payment holidays where appropriate, however the level of new requests has now slowed significantly. To further help our customers through this difficult period, we have also provided a three month extension on payment holidays for qualifying customers in need. A summary of payment holidays by division is as follows:

- **Property Finance:** 6.2k customer payment holidays granted to date as at 30 July 2020, or 29% of balances[1]. 60% of customers have matured from their first payment holiday with 4.1k payment holidays in total still in force[2] as at 30 July 2020.
- **Business Finance:** 4.3k customer payment holidays granted to date as at 30 July 2020, or 39% of balances[1]. 66% of customers have matured from their first payment holiday with 2.5k payment holidays in total still in force[2] as at 30 July 2020.
- **Consumer Lending:** 5.4k customer payment holidays granted to date as at 30 July 2020, or 8% of balances. 50% of customers have matured from their first payment holiday with 4.2k payment holidays in total still in force[2] as at 30 July 2020.

The careful and robust management of loan books has remained a strategic priority throughout the period and will be managed carefully as payment holidays come to an end.

Maintaining conservative foundations
As at 30 June 2020, the Group maintained a robust capital position with a total capital ratio of 16.5% (31 December 2019: 16.4%) and a Common Equity Tier 1 capital ratio of 12.3% (31 December 2019: 12.0%). The increase in the capital ratios over the period reflect the profit after tax of £5.6 million, offset by growth in risk-weighted assets of £136.3 million and payment of coupons on our Additional Tier 1 capital securities of £4.9 million. Changes to the transitional arrangements for IFRS 9 increase the Common Equity Tier 1 capital ratio by 0.9% (31 December 2019: 0.4%) and the total capital ratio by 0.8% (31 December 2019: 0.4%). During July 2020, we successfully concluded a tender offer of our £75 million listed Tier 2 instrument (yielding 8.5%), which had a call date due in October 2020. We achieved a £74.8 million tender and issued a new £75 million Tier 2 instrument yielding 9% against the challenging macroeconomic backdrop. We continue to optimise our capital resources while maintaining a robust and prudent risk appetite.

The Group is not required to comply with the Prudential Regulation Authority (PRA) leverage ratio framework, however the Group maintains its returns with prudent levels of leverage. The leverage ratio for the Group is 7.7% (31 December 2019: 8.6%), compared to the minimum requirement of 3.0%, with risk-weighted assets as a proportion of the loan book having remained stable at 75% (31 December 2019: 73%).

Outlook
Whilst it is difficult to predict the outlook given the ongoing uncertainty in relation to the impacts of the pandemic on the economy and other challenges, including the low interest rate environment and the ongoing negotiation of a post-Brexit relationship with the EU, the Group made good progress up to the point of the UK lockdown with performance in line with expectations. With the actions already taken and a strong capital and liquidity base, we are confident in our ability to continue to meet the changing needs of our customers, colleagues and business partners throughout this challenging period.

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[1] In the Listing Particulars relating to the July 2020 issue of a 9% Tier 2 instrument, payment holiday figures disclosed were higher, as they reflected initial payment holidays requested by customers, whereas final customer requests were lower than originally expected.

[2] 'Still in force' is defined as being where the customer is still on a payment holiday (including extensions), or where the first payment holiday has matured and we are in the process of establishing the customer's circumstances to determine whether a further concession would be appropriate.

Divisional review

The Group continues to manage its business through four reportable operating segments:

- **Property Finance**, serves professional landlords and property traders in residential and commercial asset classes, and personal customers through specialist second charge mortgages.
- **Business Finance**, offers a wide range of products including asset finance, development finance, corporate lending and structured finance targeted at SME customers.
- **Consumer Lending**, provides digital unsecured personal loans to consumers for a variety of purposes including home improvement.
- **Savings and Central** includes the Savings business which provides a wide range of cash savings solutions to personal and SME customers and Central which includes central functions and costs not allocated out.

The profitability of these segments is detailed in Note 2 of the Interim Financial Statements and summarised below:

(Unaudited)	Property Finance	Business Finance	Consumer Lending	Savings and Central	Total
Profit before tax (H1 2020) (£m)	**54.1**	**17.5**	**(22.7)**	**(43.0)**	**5.9**
Loan book (as at 30 June 2020) (£m)	**4,759.3**	**1,586.1**	**499.1**	**-**	**6,844.5**
Gross asset yield (H1 2020) (%)	**4.9**	**7.6**	**9.0**	**-**	**5.8**

Property Finance

70% of the Group's loan book, totalling £4.8 billion as at 30 June 2020

The Property Finance division had a positive start to the year and whilst COVID-19 inevitably slowed progress, the business delivered well throughout H1 2020, reflecting the depth of relationships held with our intermediary partners and the commitment and ability of staff to work remotely. The seamless move to remote working enabled us to maintain the strong relationships held with our specialist partners and customers, underpinned by a regular communication programme and the delivery of several product and system initiatives including the use of automated valuation models and new online application functionality for payment holiday requests.

Whilst profit before tax has been impacted by increased ECL charges reflecting the impact of COVID-19 and the slowing of originations in the second quarter of 2020, net operating income was 2% higher at £72.5 million (30 June 2019: £71.3 million). This reflects 19% growth in the average principal employed when compared to the same period last year, but lower yields due to the mix of assets and reduction to the Bank of England interest rate to 0.10%, with net interest margin of 3.2% (30 June 2019: 3.7%). Administrative expenses were 19% lower than the same period last year, whilst impairment losses on financial assets have increased, due to the increased ECL charges of £9.7 million recognised in the period, resulting in a cost of risk of 0.42% (30 June 2019: 0.09%).

Buy-to-let

In the first half of the year, we simplified our buy-to-let product range and streamlined the application process to reduce end-to-end cycle times. We also deployed targeted technology improvements to extend functionality and enhance the end user experience across our self-service platform '*My Shawbrook Portal'.* We have now laid the foundations for a fully digitalised mortgage journey across all of our products and in H2 2020 we will continue to develop this technology to improve the application process.

Commercial Investment

The business' depth of experience in the commercial investment market was heavily drawn upon through the challenges of H1 2020. Our specialist underwriting team's understanding of the complexities associated with lending to customers in the commercial marketplace enabled us to maintain our presence and we continued to take selective opportunities to support our customers, despite the external environment. We will continue this approach in H2 2020.

Short-term lending

A number of initiatives were delivered in H1 2020 including streamlining our product range, delivering process improvements to simplify the application process for our brokers and enhanced efficiencies in a market where speed of service is critical. There are some encouraging signs that demand in this asset class could increase through H2 2020 including as a result of the stamp duty changes introduced in July 2020, and we believe we are well placed to cater for this. Further product and process enhancements are also scheduled throughout the remainder of the year.

Divisional review (continued)

Residential
2020 started well for our residential business, reflecting our renewed focus on the second charge mortgage market. In January 2020, we restructured our sales team to deepen relationships with our existing intermediary partners and to adopt a more proactive approach to new business. As a result, in Q1 2020 we saw improved levels of new lending and, although this has since fallen, we have continued to complete new business throughout the period.

As we move into the second half of the year, we have a solid platform upon which to build and we will continue with our programme of product, technology and criteria changes designed to evolve the customer and broker experience, while also supporting our existing customers through the COVID-19 pandemic.

Business Finance

23% of the Group's loan book, totalling £1.6 billion as at 30 June 2020

The Business Finance division has maintained a strong position in its markets throughout the six months to 30 June 2020, with particularly strong growth in originations in Q1 2020. In Q2, the effect of COVID-19 subsequently impacted new business growth as we focused on supporting our existing customers. Responding to the pandemic, we quickly designed and implemented new processes to help our SME customers apply for payment holidays, providing practical support and reassurances while protecting operational capacity. This included the implementation of *DocuSign* to facilitate remote documentation and automated reporting dashboards to track payment holiday and other concession requests. During this time, we also achieved accreditation for CBILS to support our existing clients through the crisis. Despite COVID-19, we continued to modernise our Business Finance proposition and in H1 2020 we agreed to invest in a new growth platform, which will provide a digitalised journey to improve the end user experience and drive efficiencies through automation.

Whilst profit before tax has been impacted by increased ECL charges reflecting the impact of COVID-19 and the slowing of originations in the second quarter of 2020, net operating income was 5% higher at £50.6 million (30 June 2019: £48.0 million). This reflects 10% growth in the average principal employed when compared to the same period last year, but lower yields due to the mix of assets and reduction to the Bank of England interest rate to 0.10%, with net interest margin of 6.2% (30 June 2019: 6.5%). Administrative expenses were 7% lower than the same period last year, whilst impairment losses on financial assets have increased, primarily due to the increased ECL charges of £19.4 million recognised in the period, resulting in a cost of risk of 2.56% (30 June 2019: 0.55%). Additionally, an ECL charge for loan commitments of £1.5 million was charged to provisions for liabilities and charges (30 June 2019: £0.1 million credit).

Asset finance
The deployment of our differentiated specialist proposition across multiple discrete sectors continued to provide diversity for the loan book in H1 2020. Following the amalgamation of our general and specialist asset finance propositions into a single business unit in 2019, we spent the first half of the year focusing on re-shaping our distribution model for both direct and intermediated business, while supporting the needs of those customers impacted by COVID-19.

Corporate lending
In Q1 2020, our corporate lending business launched its new commercial loan product, superseding the commercial mortgage and senior secured loan products trialled in 2019. The new product complements our existing asset-based lending offering by enabling us to provide debt finance to profitable but asset-light mid-sized SMEs through a senior leveraged cashflow loan.

Development finance
With several transactions completed in January 2020, the business exceeded £500 million of facilities for the first time. The solid Q1 momentum advanced the business through the second quarter, delivering on commitments made pre-lockdown, despite the practical and logistical challenges created by the crisis. To date our existing development finance portfolio continues to perform well, however active monitoring suggests some schemes may take longer to complete due to delays caused by the UK lockdown.

Structured finance
Throughout the period our structured finance business continued to provide valuable liquidity through both block and committed wholesale lines to the non-bank lending sector. Within our other structured lending businesses, our target mergers and acquisitions market (£10 million - £40 million deal size) is still active and transactions continued to be written in Q2 2020, with a number of attractive opportunities remaining in the pipeline for H2 2020.

Divisional review (continued)

Consumer Lending

7% of the Group's loan book, totalling £0.5 billion as at 30 June 2020

The Consumer Lending division has responded well to the challenges presented by COVID-19, quickly adjusting to the changed operating environment whilst maintaining strong levels of client interaction. The business benefits from a data driven proposition which we have been able to leverage to inform and adapt our approach to lending. To alleviate the short-term impacts on our customers, we continue to offer a broad range of solutions to support their individual circumstances, which include payment holidays and other forbearance measures, where appropriate. To make the payment holiday process easier for our customers, we also introduced an online application function.

Profit before tax has been impacted by increased ECL charges reflecting the impact of COVID-19 and the slowing of originations in the second quarter of 2020, while net operating income was 26% lower at £20.5 million (30 June 2019: £27.7 million). This reflects a 23% reduction in the average principal employed when compared to the same period last year, due mainly to the sale of a £0.1 billion unsecured loan portfolio and lower yields due to the Bank of England base rate reduction resulting in net interest margin of 7.3% (30 June 2019: 7.6%). Administrative expenses were 15% lower than the same period last year, whilst impairment losses on financial assets have increased, primarily due to increased ECL charges of £16.7 million recognised in the period, resulting in a cost of risk of 8.89% (30 June 2019: 3.48%). Additionally, we have provided for further liabilities under the Consumer Credit Act with a net charge of £10.9 million for the period (30 June 2019: £0.7 million).

Personal loans

Unsecured personal loan originations in H1 2020 were impacted by both reduced supply and demand across the market. While the business started to see demand return to more normalised levels towards the end of H1 2020 and into the beginning of H2 2020, we remain cautious with our lending strategy to ensure that we continue to lend responsibly. We have continued to work closely with our customers and partners to obtain additional information to better assess our applicants' individual circumstances, such as Open Banking data and more granular employment details.

Partner finance

Following the strategic review of our partner finance business in 2019, we are in the final phases of rationalising our supplier partner network and simplifying our proposition. As a result of the UK lockdown in March 2020, and the introduction of enhanced health and safety measures, partner sales reduced significantly in Q2 2020. As lockdown has begun to ease and more normalised market conditions return we are starting to see an increase in origination volumes.

Savings and Central

Total customer deposits of £7.6 billion as at 30 June 2020

In H1 2020, the Group experienced consistent and sustainable growth in its retail savings business, growing its deposit base by 25% to £7.6 billion at 30 June 2020 (31 December 2019: £6.1 billion). During this time, the Group's average cost of retail deposits also reduced to 1.6% as at 30 June 2020 (30 June 2019: 1.7%) following a range of pricing changes related to market conditions and also a simplification of the Easy Access product range.

Personal savings

In the first half of 2020, we continued to explore and invest in alternative technology solutions to digitalise and automate our savings proposition. This included making several enhancements to our online customer deposit platform, including the activation of SMS functionality and a straight-through maturity process to enhance the customer experience and improve operational efficiencies. We also continued to leverage our existing partnerships to broaden access to diverse customer segments.

Customer satisfaction levels have remained high, with an average Net Promotor Score of 86% received during the first half of the year. This is a reflection of the first-class customer service we pride ourselves on, which was maintained when the teams operated remotely during this period.

Business savings

Since the successful launch of our digital SME deposit range in 2019, we have continued to grow our presence in this space, with SME deposits increasing to £212 million at 30 June 2020 (31 December 2019: £16 million). We also extended our SME proposition with the launch of further Notice and Fixed term products in February 2020.

Divisional review (continued)

Central costs

Central costs includes all central team costs not allocated out to the divisions, including the IT department, treasury, audit, risk and compliance, financial, regulatory and tax reporting, legal and human resources. This also includes income and expenses that are not attributable to any of the segments such as interest payable on subordinated debt and fair value adjustments on derivatives. Compared to the same period last year, administrative expenses are 4% lower as a result of a lower bonus accrual for the first six months of 2020 period. Underlying administrative expenses increased by 1% if this is excluded.

Interim Risk Management Report

Except where otherwise indicated, the following report is covered by the Independent Review Report on page 32.

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 2019 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. The top and emerging risks are unchanged from those disclosed in the Risk Management Report in the 2019 Annual Report and Accounts and are as follows:

Top risks

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

Full details of each of the top risks are set out in the 2019 Annual Report and Accounts. With the exception of the impacts and actions associated with COVID-19, as detailed below, there have been no significant changes in the Group's top risks compared to that disclosed as at 31 December 2019.

COVID-19

The COVID-19 pandemic continues to have a material impact on businesses around the world and the economic environments in which they operate. The risks associated with the COVID-19 pandemic were primarily captured by the 'global pandemic risk' category that was introduced as a top risk category in the 2019 Annual Report and Accounts in response to the pandemic.

The overall levels of COVID-19 infections in the UK have started to recede and the UK Government has started to reduce the severity of the restrictions on movement and has started to reopen some sectors of the economy, but there remains a risk of a potential second wave. Whilst the length of the economic downturn and its overall impact to the economy remains uncertain, further clarity should be gained within the second half of 2020. In addition to those captured by the 'global pandemic risk' category, significant risks to the Group that may arise from the economic shock are:

- increased credit risk as customers are unable to meet their obligations as they fall due. The primary risks relate to the impacts of the end of the furlough scheme in October 2020 and the extent that some jobs may have been permanently lost in some sectors. The extension of payment holidays will provide a further grace period for some borrowers to return to normal payments and CBILS loans, which include government guarantees, provide additional support to customers which may potentially reduce some of this risk to the Group. As a result, there may be increased levels of forbearance, impairment, and default together with other forms of customer support;
- a lengthy reduction in business activity may impact the Group's ability to generate new business opportunities and the associated growth of the portfolio. The Group is carefully considering weekly macroeconomic data to inform its strategy and risk appetite;
- the short- to medium-term impacts of these changes could lead to a fall in the collateral values of the security held to support the Group's lending, which may have an impact on impairment and the Group's risk-weighted assets. The consensus forecasts point to only a modest fall in house prices and, due to the limited appetite for lending over 75% loan-to-value, the fall in collateral values would need to be severe and prolonged to have an impact on the Group; and
- heightened levels of fraud as fraudsters take advantage of vulnerabilities created by the current situation.

Top and emerging risks (continued)

The priorities of the Group in managing the challenges faced as part of the COVID-19 pandemic are ensuring the needs of its customers are met, protecting employees and securing business continuity. The Group has taken a number of actions in response to the pandemic, including:

- following mobilisation of the Group's Incident Management Team and Incident Management Implementation Team as the pandemic unfolded, the teams continue to manage the ongoing situation with an enhanced level of monitoring to ensure the needs of customers and employees continue to be met;
- updating the capital and funding plans to reflect the prudential support provided, including the UK bank rate reduction and the reduction in UK countercyclical capital buffer to 0%;
- updating the Group's risk appetite statement;
- implementing a number of government, regulatory and central bank support initiatives to support customers including the provision of payment holidays to those impacted by the pandemic and the application to and approval of participation in the CBILS;
- implementing operational and technical infrastructure to allow almost all employees to transition to working from home in line with the UK Government's guidelines within two weeks of the UK lockdown being put in place. This was done whilst maintaining the expected levels of customer support;
- redeploying skilled colleagues to support customer management and ensure that consumers and SMEs in or approaching financial difficulties are provided with timely support; and
- developing a programme to provide ongoing monitoring of COVID-19 related risks, including regular reporting to the Executive Committees and Board.

Emerging risks

- Brexit;
- minimum requirements for own funds and eligible liabilities (MREL) funding requirements;
- financial crime;
- climate change; and
- London Inter-Bank Offered Rate (LIBOR) transition.

Full details of each of the emerging risks are set out in the 2019 Annual Report and Accounts. An update for each emerging risk is provided in the section below.

Brexit

The UK left the EU on 31 January 2020. The focus on the short-term impacts of COVID-19 may have increased the probability of a disruptive no deal Brexit if there is no extension to the transition period and there is no progress on a trade agreement with the EU. The Group continues to consider that the impact of Brexit falls within its current stress testing scenarios considered through its Internal Capital Adequacy Assessment Process (ICAAP). All of the Group's operations are based in the UK.

Minimum requirements for own funds and eligible liabilities funding requirements

The Group will continue to engage with the PRA during its strategic planning process to understand the point at which the Group may face additional MREL requirements as a result of its preferred resolution strategy being amended to ensure that the Group has plenty of time to prepare.

The Group utilises the Standardised Approach for managing credit risk. The EU announced, in response to COVID-19, that the implementation of the revised Standardised Approach would be delayed until 1 January 2023 (from 1 January 2022). The main impact of the proposals is expected to be an increase in the average risk-weight of the Group's Property Finance division. This will increase the Pillar 1 requirement as well as the size of the overall MREL requirement and will be considered as part of the Group's ongoing budgets and forecasts.

Financial crime

The Group continues to enhance its control environment with respect to financial crime which is closely monitored by Senior Management. The Group has identified its preferred solution to support automated customer due diligence processes and is working on embedding the system into its core divisions. The Group is in the process of appointing a new Money Laundering Reporting Officer subject to regulatory approval.

Climate change

The Group continues to consider its exposure to the physical and transitional risks from climate change and the move to a low carbon economy which have the potential to impact both its customers and the business activities. The Group's steering group has continued to meet and is making progress in delivering on its climate change plan.

Top and emerging risks (continued)

LIBOR transition

Details of the Group's response to interest rate benchmark reform was set out in the 2019 Annual Report and Accounts on page 132.

The Group continues to closely monitor the market and the output from regulators and various industry working groups managing the transition to new benchmark interest rates. A LIBOR Steering Committee has been mobilised to deliver the Group's LIBOR transition programme under the governance of the Chief Financial Officer. A 'LIBOR Communication Channel' has also been developed which meets on a monthly basis to communicate progress and actions.

The Group's response continues to focus on treating customers fairly and considers several aspects of transition, including the reduction of clients' exposures to legacy LIBOR contracts by amending or replacing existing contracts to include robust fall-back provisions or by replacing LIBOR with relevant alternative benchmark interest rates. A new benchmark rate 'Shawbrook Base Rate' was decided upon in H1 2020 and commenced being used from 1 July 2020.

The Group has developed a detailed communication plan with a focus on communicating with customers in a way that is clear, fair and not misleading. During H1 2020, the Group communicated to all its customers with products linked to LIBOR to highlight the discontinuation of the benchmark. The Group also amended all of its new product documentation to ensure that all new offers include enhanced LIBOR transition terms and information.

The Group discontinued the use of LIBOR-linked derivatives, which were previously used for hedging interest rate risk, in May 2019. The legacy book of LIBOR-linked hedge accounted derivatives reduced by £133 million during the six month period to 30 June 2020.

Key risk categories

The key risk categories faced by the Group are:
- creditworthiness risk;
- liquidity risk;
- market risk;
- operational risk;
- conduct, legal and compliance risk;
- strategic risk; and
- systems and change risk.

Each of these risk categories are defined and detailed in the Risk Management Report in the 2019 Annual Report and Accounts.

Certain disclosures and updates relating to creditworthiness risk, liquidity risk, operational risk and conduct, legal and compliance risk are provided in the following sections.

Creditworthiness risk

Creditworthiness risk is the risk that a borrowing client or treasury counterparty fails to repay some or all of the capital or interest advanced to them due to lack of willingness to pay (credit risk) and/or lack of ability to pay (affordability).

The creditworthiness risk category also includes credit concentration risk, which is the risk of exposure to particular groups of customers, sectors or geographies that, uncontrolled, may lead to additional losses that the Shareholder or the market may not expect.

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 of loans and advances to customers

Calculation of expected credit losses

Impairment of loans and advances to customers is calculated using a forward-looking ECL model. The calculation of ECLs is set out in the 2019 Annual Report and Accounts (see page 108).

The method of calculation is unchanged in the current period, however certain assumptions have been updated to reflect the current circumstances and additional judgements have been required. Updates to critical judgements and accounting estimates are set out in the following sections.

Critical judgements

The measurement of ECLs requires the Group to make a number of judgements and is an area identified as involving critical accounting estimates and judgement (see Note 1.6 of the Interim Financial Statements). The critical judgements are unchanged to those identified in the 2019 Annual Report and Accounts (see page 110). These relate to the staging of loans and therefore whether a 12-month or lifetime ECL is recognised. This includes the assessment of whether there has been a significant increase in credit risk since initial recognition (SICR) (resulting in the loan being transferred to Stage 2), whether a loan is in default (resulting in transfer to Stage 3), or whether a loan is 'cured' (and is therefore reclassified back to a lower stage). Updates to the judgements set out in the 2019 Annual Report and Accounts are as follows:

Significant increase in credit risk assessment

The extension of short-term concessions in response to COVID-19 (i.e. payment holidays), may indicate a SICR under the Group's normal assessment criteria outlined in the 2019 Annual Report and Accounts. However, the Group has adopted advice from UK regulatory bodies that the granting of COVID-19 related concessions does not automatically indicate a SICR for the majority of cases, with these interim measures not considered to be forbearance given the customer was not in financial difficulty when the concession was granted. As such, the accounts with COVID-19 related concessions have predominantly been removed from the SICR assessment. The Group has however, carefully considered internal credit and customer data to determine whether there might be any other accounts with SICR not otherwise identified by the process.

Curing: non-forborne probation periods

The Group has enhanced its forbearance data and has further enhanced the implementation of probation periods to account for customer loans that have cured from Stage 3.

Key risk categories (continued)

Creditworthiness risk (continued)

Critical accounting estimates

The calculation of ECLs requires the Group to make a number of assumptions and estimates and is an area identified as involving critical accounting estimates and judgement (see Note 1.6 of the Interim Financial Statements). The critical accounting estimates are unchanged to those identified in the 2019 Annual Report and Accounts (see page 113). Specifically this relates to the use of forward-looking information in the calculation of ECLs and the inputs and assumptions used in the ECL models. Updates to the assumptions and estimates set out in the 2019 Annual Report and Accounts are detailed below.

Forward-looking information

The Group has revised the forward-looking economic assumptions used to calculate the ECL for the Group. A summary of the economic assumptions used for the period ended 30 June 2020 and 31 December 2019 respectively are detailed in the following tables.

The outlook for the UK economy deteriorated during April and May 2020 and is reflected in the revised base case. The Group's central scenario assumes that the UK economy will exit the lockdown and start to recover during H2 2020 but at a slower rate than previously expected. The risk is to the downside with the potential for additional unemployment following the expiry of the furlough schemes that may also coincide with borrowers exiting payment holidays. There is also an increased risk that the UK may leave without a trading agreement at the end of 2020. The nominal level of real gross domestic product is lower at all points during the forecast and the higher growth rates in 2022 and 2023 are a function of the delay in recovery and starting from a much lower level of nominal real gross domestic product.

As at 30 June 2020 (Unaudited)		**2020**	**2021**	**2022**	**2023**	**2024**
GDP - % change year-on-year	Base	**(9.7%)**	**7.4%**	**3.2%**	**2.9%**	**2.1%**
	Upside	**(7.5%)**	**10.6%**	**2.3%**	**1.8%**	**1.8%**
	Downside	**(14.5%)**	**5.3%**	**7.3%**	**4.5%**	**2.0%**
Bank Rate (%)	Base	**0.23%**	**0.10%**	**0.34%**	**0.60%**	**0.85%**
	Upside	**0.23%**	**0.40%**	**0.73%**	**0.98%**	**1.21%**
	Downside	**0.23%**	**0.10%**	**0.34%**	**0.60%**	**0.85%**
UK Unemployment (%)	Base	**6.1%**	**6.7%**	**5.1%**	**4.6%**	**4.2%**
	Upside	**5.3%**	**5.4%**	**4.5%**	**4.1%**	**4.1%**
	Downside	**6.8%**	**9.4%**	**6.6%**	**5.3%**	**4.6%**
Consumer Prices Index - % change year-on-year	Base	**0.9%**	**1.2%**	**1.7%**	**1.8%**	**1.8%**
	Upside	**1.2%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**
	Downside	**0.7%**	**1.0%**	**1.9%**	**2.0%**	**2.0%**
UK Residential House Price Index - % change year-on-year	Base	**(2.6%)**	**(0.3%)**	**3.7%**	**3.9%**	**3.3%**
	Upside	**1.9%**	**3.6%**	**5.4%**	**3.9%**	**3.3%**
	Downside	**(5.8%)**	**(2.3%)**	**2.6%**	**2.6%**	**3.7%**

As at 31 December 2019 (Audited)		2020	2021	2022	2023	2024
GDP - % change year-on-year	Base	1.2%	1.8%	1.6%	1.7%	1.7%
	Upside	1.9%	2.7%	1.9%	1.5%	1.3%
	Downside	(0.1%)	0.8%	1.6%	2.1%	2.2%
Bank Rate (%)	Base	0.85%	1.08%	1.25%	1.44%	1.90%
	Upside	1.02%	1.60%	2.01%	2.17%	2.44%
	Downside	0.46%	0.20%	0.26%	0.64%	1.39%
UK Unemployment (%)	Base	3.9%	4.0%	4.0%	4.0%	4.0%
	Upside	3.7%	3.4%	3.2%	3.1%	3.2%
	Downside	4.3%	5.0%	5.2%	5.1%	4.8%
Consumer Prices Index - % change year-on-year	Base	1.9%	2.0%	2.0%	2.0%	2.0%
	Upside	1.7%	1.9%	2.2%	2.1%	2.3%
	Downside	1.3%	1.4%	1.9%	2.0%	2.0%
UK Residential House Price Index - % change year-on-year	Base	1.3%	2.7%	2.8%	2.3%	2.7%
	Upside	3.0%	5.4%	5.1%	2.7%	1.8%
	Downside	(3.0%)	(2.0%)	1.3%	3.0%	4.2%

Key risk categories (continued)

Creditworthiness risk (continued)

The probability weightings applied to the three scenarios have also been updated compared to those disclosed in the 2019 Annual Report and Accounts to reflect the current view, as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Base	**30%**	40%
Upside	**10%**	20%
Downside	**60%**	40%

The calculation of ECLs is sensitive to judgements and assumptions made regarding the forward-looking scenarios used and the probability weightings applied. Sensitivity analysis was performed by Management to determine the impact on ECLs.

The table below shows the loss allowance for loans and advances to customers based on the probability weighted multiple economic scenarios, as recognised in the statement of financial position, and the impact on this loss allowance if each individual forward-looking scenario were weighted at 100%:

	Probability weighted loss allowance per statement of financial position	**Increase/(decrease) in loss allowance if scenario weighted at 100%**		
As at 30 June 2020 (Unaudited)	**£m**	**Base £m**	**Upside £m**	**Downside £m**
Property Finance	**24.2**	**(5.2)**	**(10.3)**	**4.3**
Business Finance	**44.9**	**(5.7)**	**(9.8)**	**4.5**
Consumer Lending	**37.8**	**(5.0)**	**(11.7)**	**4.5**
Total	**106.9**	**(15.9)**	**(31.8)**	**13.3**

Key risk categories (continued)

Creditworthiness risk (continued)

Analysis of the loss allowance

The loss allowance for loans and advances to customers as at 30 June 2020 is £106.9 million (31 December 2019: £61.1 million).

The following tables provide an analysis of loans and advances to customers by reportable segment and the period-end stage classification:

As at 30 June 2020 (Unaudited)	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
Stage 1	**3,692.9**	**1,432.3**	**464.3**	**5,589.5**
Stage 2	**913.6**	**124.6**	**61.4**	**1,099.6**
Stage 3	**138.8**	**32.5**	**7.2**	**178.5**
Gross carrying amount	**4,745.3**	**1,589.4**	**532.9**	**6,867.6**
Stage 1	**(8.7)**	**(24.3)**	**(21.2)**	**(54.2)**
Stage 2	**(4.8)**	**(6.7)**	**(11.6)**	**(23.1)**
Stage 3	**(10.7)**	**(13.9)**	**(5.0)**	**(29.6)**
Loss allowance	**(24.2)**	**(44.9)**	**(37.8)**	**(106.9)**
Carrying amount[1]	**4,721.1**	**1,544.5**	**495.1**	**6,760.7**
Loss allowance coverage				
Stage 1	**0.2%**	**1.7%**	**4.6%**	**1.0%**
Stage 2	**0.5%**	**5.4%**	**18.9%**	**2.1%**
Stage 3	**7.7%**	**42.8%**	**69.4%**	**16.6%**
Total loss allowance coverage	**0.5%**	**2.8%**	**7.1%**	**1.6%**

As at 31 December 2019 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Stage 1	3,813.9	1,486.6	547.3	5,847.8
Stage 2	538.3	134.7	43.6	716.6
Stage 3	89.0	29.1	7.5	125.6
Gross carrying amount	4,441.2	1,650.4	598.4	6,690.0
Stage 1	(3.7)	(8.8)	(8.1)	(20.6)
Stage 2	(2.7)	(3.8)	(7.7)	(14.2)
Stage 3	(8.1)	(12.9)	(5.3)	(26.3)
Loss allowance	(14.5)	(25.5)	(21.1)	(61.1)
Carrying amount[1]	4,426.7	1,624.9	577.3	6,628.9
Loss allowance coverage				
Stage 1	0.1%	0.6%	1.5%	0.4%
Stage 2	0.5%	2.8%	17.7%	2.0%
Stage 3	9.1%	44.3%	70.7%	20.9%
Total loss allowance coverage	0.3%	1.5%	3.5%	0.9%

[1] Excludes fair value adjustments for hedged risk.

Key risk categories (continued)

Creditworthiness risk (continued)

The following tables provide an analysis of loans and advances to customers by type and the period-end stage classification:

As at 30 June 2020 (Unaudited)	**Loan receivables £m**	**Finance lease receivables £m**	**Instalment credit receivables £m**	**Total £m**
Stage 1	**5,189.8**	**61.6**	**338.1**	**5,589.5**
Stage 2	**1,055.9**	**7.6**	**36.1**	**1,099.6**
Stage 3	**159.0**	**8.0**	**11.5**	**178.5**
Gross carrying amount	**6,404.7**	**77.2**	**385.7**	**6,867.6**
Stage 1	**(43.5)**	**(1.6)**	**(9.1)**	**(54.2)**
Stage 2	**(20.7)**	**(0.3)**	**(2.1)**	**(23.1)**
Stage 3	**(21.8)**	**(4.5)**	**(3.3)**	**(29.6)**
Loss allowance	**(86.0)**	**(6.4)**	**(14.5)**	**(106.9)**
Carrying amount[1]	**6,318.7**	**70.8**	**371.2**	**6,760.7**
Loss allowance coverage				
Stage 1	**0.8%**	**2.6%**	**2.7%**	**1.0%**
Stage 2	**2.0%**	**3.9%**	**5.8%**	**2.1%**
Stage 3	**13.7%**	**56.3%**	**28.7%**	**16.6%**
Total loss allowance coverage	**1.3%**	**8.3%**	**3.8%**	**1.6%**

As at 31 December 2019 (Audited)	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	5,437.2	66.4	344.2	5,847.8
Stage 2	680.7	5.5	30.4	716.6
Stage 3	108.7	9.1	7.8	125.6
Gross carrying amount	6,226.6	81.0	382.4	6,690.0
Stage 1	(16.8)	(1.0)	(2.8)	(20.6)
Stage 2	(12.1)	(0.3)	(1.8)	(14.2)
Stage 3	(18.5)	(5.1)	(2.7)	(26.3)
Loss allowance	(47.4)	(6.4)	(7.3)	(61.1)
Carrying amount[1]	6,179.2	74.6	375.1	6,628.9
Loss allowance coverage				
Stage 1	0.3%	1.5%	0.8%	0.4%
Stage 2	1.8%	5.5%	5.9%	2.0%
Stage 3	17.0%	56.0%	34.6%	20.9%
Total loss allowance coverage	0.8%	7.9%	1.9%	0.9%

[1] Excludes fair value adjustments for hedged risk.

Key risk categories (continued)

Creditworthiness risk (continued)

The following table provides an analysis of movements during the six month period ended 30 June 2020 in the loss allowance associated with loans and advances to customers:

(Unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2020	**20.6**	**14.2**	**26.3**	**61.1**
Movements in loss allowance				
Transfer from Stage 1	**(2.1)**	**1.8**	**0.3**	**-**
Transfer from Stage 2	**4.5**	**(6.3)**	**1.8**	**-**
Transfer from Stage 3	**5.4**	**0.5**	**(5.9)**	**-**
New financial assets originated or purchased	**10.8**	**1.0**	**0.2**	**12.0**
Financial assets that have been derecognised	**(5.3)**	**0.1**	**(0.3)**	**(5.5)**
Changes in credit risk[1]	**20.3**	**11.8**	**7.2**	**39.3**
Total movement in loss allowance	**33.6**	**8.9**	**3.3**	**45.8**
As at 30 June 2020	**54.2**	**23.1**	**29.6**	**106.9**

Movements in the gross carrying amount of loans and advances to customers in the six month period ended 30 June 2020 that contributed to the changes in the loss allowance during the period are shown in the table below:

(Unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2020	**5,847.8**	**716.6**	**125.6**	**6,690.0**
Movements in gross carrying amount				
Transfer from Stage 1	**(615.6)**	**561.8**	**53.8**	**-**
Transfer from Stage 2	**136.3**	**(175.9)**	**39.6**	**-**
Transfer from Stage 3	**21.6**	**2.9**	**(24.5)**	**-**
New financial assets originated or purchased	**1,155.1**	**61.0**	**0.5**	**1,216.6**
Financial assets that have been derecognised	**(756.6)**	**(19.4)**	**(8.0)**	**(784.0)**
Net change in lending[2]	**(199.1)**	**(47.4)**	**(8.5)**	**(255.0)**
Total movement in gross carrying amount	**(258.3)**	**383.0**	**52.9**	**177.6**
As at 30 June 2020	**5,589.5**	**1,099.6**	**178.5**	**6,867.6**

The above movement tables are compiled by comparing the position at the end of the period to that at the beginning of the period. Transfers between stages are deemed to have taken place at the start of the period, with all other movements shown in the stage in which the asset is held at the end of the period.

[1] Changes in credit risk includes changes resulting from net changes in lending (see footnote 2) and changes resulting from adjustments to the models used in the calculation of ECLs including model inputs and underlying assumptions.

[2] Net changes in lending includes repayments, additional drawdowns and accrued interest.

Key risk categories (continued)

Creditworthiness risk (continued)

The movement in the loss allowance of £45.8 million, which includes COVID-19 impacts, is recognised in the statement of the profit and loss within impairment losses on financial assets and represents the ECL charge for the period (see Note 6 of the Interim Financial Statements). The table below provides an analysis of the ECL charge by reportable segment:

For the six months ended 30 June (Unaudited)	2020 £m	2019 £m
Property Finance	**9.7**	1.5
Business Finance	**19.4**	1.2
Consumer Lending	**16.7**	1.3
Total expected credit loss charge for the period	**45.8**	4.0

The H1 2019 numbers included the impact of a portfolio of unsecured personal loans that were classified as held for sale as at 31 December 2019 and were subsequently sold in January 2020. The impact of the revised macroeconomic scenarios and the move from a 40% base / 20% upside / 40% downside scenario to a 30% base / 10% upside / 60% downside scenario, resulted in an increased ECL charge for the period of £45.8 million (30 June 2019: £4.0 million).

(b) Credit risk exposure

To assess credit risk, the Group has developed a credit grading system which maps to a common master grading scale. The current risk grading framework is unchanged from that used in the year ended 31 December 2019 and consists of 25 grades on a master grading scale, reflecting varying degrees of risk and default as set out in the table below:

Grading	Master grading scale	PD range
Low risk	1-10	<=0.38%
Medium risk	11-15	>0.38% to <= 1.76%
High risk	16-25	>1.76%

The following tables provide an analysis of the credit risk exposure associated with the Group's loans and advances to customers. Information is based on the credit risk grades defined in the table above and the period-end stage classification. The information below also provides the Group's maximum exposure to credit risk, which is the gross carrying amount net of the loss allowance recognised.

	As at 30 June 2020 (Unaudited)				As at 31 December 2019 (Audited)			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Low risk	**1,759.7**	**96.1**	**33.3**	**1,889.1**	1,583.0	11.3	1.1	1,595.4
Medium risk	**2,434.6**	**506.2**	**6.1**	**2,946.9**	2,863.1	264.5	1.6	3,129.2
High risk	**1,395.2**	**497.3**	**139.1**	**2,031.6**	1,401.7	440.8	122.9	1,965.4
Gross carrying amount	**5,589.5**	**1,099.6**	**178.5**	**6,867.6**	5,847.8	716.6	125.6	6,690.0
Loss allowance	**(54.2)**	**(23.1)**	**(29.6)**	**(106.9)**	(20.6)	(14.2)	(26.3)	(61.1)
Carrying amount[1]	**5,535.3**	**1,076.5**	**148.9**	**6,760.7**	5,827.2	702.4	99.3	6,628.9

[1] Excludes fair value adjustments for hedged risk.

Key risk categories (continued)

Creditworthiness risk (continued)

(c) Forbearance

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. The Group's forbearance policy is outlined in the 2019 Annual Report and Accounts (see page 120).

To address the exceptional challenges posed by COVID-19 and to provide support for our customers, concessions due solely to the impact of COVID-19 have been granted to our customers. In line with regulatory guidance, these interim measures are not considered to be forbearance, given the customer was not in financial difficulty when the concession was granted, as determined by the Group's forbearance policy. Therefore, these cases are not reflected in the Group's forbearance disclosures. Where underlying longer-term, financial difficulties are evident, the Group's normal forbearance assessment applies.

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

		Gross amount of forborne loans			Loss allowance on forborne loans			
As at 30 June 2020 (Unaudited)	**Number**	**Performing £m**	**Non-performing £m**	**Total £m**	**Performing £m**	**Non-Performing £m**	**Total £m**	**Coverage %**
Property Finance								
Stage 1	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 2	**131**	**3.4**	**1.5**	**4.9**	**-**	**-**	**-**	**-**
Stage 3	**589**	**-**	**48.5**	**48.5**	**-**	**(4.8)**	**(4.8)**	**9.9**
Total	**721**	**3.4**	**50.0**	**53.4**	**-**	**(4.8)**	**(4.8)**	**9.0**
Business Finance								
Stage 1	**6**	**0.1**	**-**	**0.1**	**-**	**-**	**-**	**-**
Stage 2	**167**	**16.5**	**49.6**	**66.1**	**(0.2)**	**(3.1)**	**(3.3)**	**5.0**
Stage 3	**221**	**-**	**19.0**	**19.0**	**-**	**(4.9)**	**(4.9)**	**25.8**
Total	**394**	**16.6**	**68.6**	**85.2**	**(0.2)**	**(8.0)**	**(8.2)**	**9.6**
Consumer Lending								
Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 2	**141**	**0.4**	**0.3**	**0.7**	**(0.1)**	**(0.2)**	**(0.3)**	**42.9**
Stage 3	**3,466**	**-**	**4.0**	**4.0**	**-**	**(2.7)**	**(2.7)**	**67.5**
Total	**3,607**	**0.4**	**4.3**	**4.7**	**(0.1)**	**(2.9)**	**(3.0)**	**63.8**
Total								
Stage 1	**7**	**0.1**	**-**	**0.1**	**-**	**-**	**-**	**-**
Stage 2	**439**	**20.3**	**51.4**	**71.7**	**(0.3)**	**(3.3)**	**(3.6)**	**5.0**
Stage 3	**4,276**	**-**	**71.5**	**71.5**	**-**	**(12.4)**	**(12.4)**	**17.3**
Total	**4,722**	**20.4**	**122.9**	**143.3**	**(0.3)**	**(15.7)**	**(16.0)**	**11.2**

Key risk categories (continued)

Creditworthiness risk (continued)

As at 31 December 2019 (Audited)	Number	Gross amount of forborne loans			Loss allowance on forborne loans			
		Performing £m	Non-performing[1] £m	Total £m	Performing £m	Non-performing[1] £m	Total £m	Coverage %
Property Finance								
Stage 1	20	0.6	0.1	0.7	-	-	-	-
Stage 2	158	3.6	3.4	7.0	-	-	-	-
Stage 3	525	-	38.1	38.1	-	(4.1)	(4.1)	10.8
Total	703	4.2	41.6	45.8	-	(4.1)	(4.1)	9.0
Business Finance								
Stage 1	53	-	0.1	0.1	-	-	-	-
Stage 2	53	10.6	3.8	14.4	(0.2)	(0.1)	(0.3)	2.1
Stage 3	204	-	10.6	10.6	-	(4.1)	(4.1)	38.7
Total	310	10.6	14.5	25.1	(0.2)	(4.2)	(4.4)	17.5
Consumer Lending								
Stage 1	256	0.1	-	0.1	-	-	-	-
Stage 2	222	0.4	0.5	0.9	(0.1)	(0.3)	(0.4)	44.4
Stage 3	3,086	-	4.8	4.8	-	(3.1)	(3.1)	64.6
Total	3,564	0.5	5.3	5.8	(0.1)	(3.4)	(3.5)	60.3
Total								
Stage 1	329	0.7	0.2	0.9	-	-	-	-
Stage 2	433	14.6	7.7	22.3	(0.3)	(0.4)	(0.7)	3.1
Stage 3	3,815	-	53.5	53.5	-	(11.3)	(11.3)	21.1
Total	4,577	15.3	61.4	76.7	(0.3)	(11.7)	(12.0)	15.6

[1] Loans that are classified as non-performing and Stage 1 are 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.

Key risk categories (continued)

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 2020 (Unaudited)	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
East Anglia	**141.8**	**62.5**	**21.9**	**226.2**
East Midlands	**169.6**	**87.9**	**39.7**	**297.2**
Greater London	**1,890.1**	**402.6**	**59.4**	**2,352.1**
Guernsey/Jersey/Isle of Man	**32.7**	**21.0**	**0.1**	**53.8**
North East	**79.6**	**34.0**	**23.0**	**136.6**
North West	**369.0**	**199.6**	**60.5**	**629.1**
Northern Ireland	**10.9**	**-**	**1.2**	**12.1**
Scotland	**283.1**	**70.3**	**65.8**	**419.2**
South East	**932.6**	**223.7**	**98.7**	**1,255.0**
South West	**322.7**	**135.8**	**42.8**	**501.3**
Wales	**98.2**	**62.6**	**22.2**	**183.0**
West Midlands	**190.5**	**183.7**	**49.6**	**423.8**
Yorkshire/Humberside	**224.5**	**105.7**	**48.0**	**378.2**
Gross loans and advances to customers	**4,745.3**	**1,589.4**	**532.9**	**6,867.6**

As at 31 December 2019 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	134.9	77.1	24.4	236.4
East Midlands	156.0	70.2	45.2	271.4
Greater London	1,714.9	419.1	67.7	2,201.7
Guernsey/Jersey/Isle of Man	34.5	21.5	0.1	56.1
North East	74.8	42.9	24.6	142.3
North West	357.1	191.9	67.5	616.5
Northern Ireland	10.5	-	1.6	12.1
Scotland	280.2	80.4	73.4	434.0
South East	867.9	253.0	111.3	1,232.2
South West	318.8	150.3	47.6	516.7
Wales	91.9	61.5	24.0	177.4
West Midlands	179.0	171.2	56.7	406.9
Yorkshire/Humberside	220.7	111.3	54.3	386.3
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

Key risk categories (continued)

Creditworthiness risk (continued)

Particular industries have been impacted more than others as a result of the COVID-19 pandemic. To provide an illustration of the Group's exposure to particular industries, the following tables provide an analysis of concentrations of credit risk from the Group's loans and advances to customers by industry:

As at 30 June 2020 (Unaudited)	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
Agriculture, forestry and fishing	**0.7**	**27.3**	**-**	**28.0**
Mining and quarrying	**0.1**	**0.3**	**-**	**0.4**
Manufacturing	**3.7**	**149.4**	**-**	**153.1**
Transport, storage and utilities	**6.0**	**216.8**	**-**	**222.8**
Construction	**268.3**	**186.0**	**-**	**454.3**
Wholesale and retail trade	**15.6**	**92.6**	**-**	**108.2**
Services and other	**2,272.8**	**114.9**	**532.9**	**2,920.6**
Real estate (commercial)	**2,164.4**	**357.7**	**-**	**2,522.1**
Financial industry (bank and non-bank)	**13.7**	**444.4**	**-**	**458.1**
Gross loans and advances to customers	**4,745.3**	**1,589.4**	**532.9**	**6,867.6**

As at 31 December 2019 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Agriculture, forestry and fishing	0.7	22.4	-	23.1
Mining and quarrying	0.1	0.7	-	0.8
Manufacturing	3.9	126.9	-	130.8
Transport, storage and utilities	5.7	196.6	-	202.3
Construction	251.8	315.5	-	567.3
Wholesale and retail trade	23.0	106.7	-	129.7
Services and other	2,130.2	125.8	598.4	2,854.4
Real estate (commercial)	2,009.4	207.3	-	2,216.7
Financial industry (bank and non-bank)	16.4	548.5	-	564.9
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

The Group's exposure is predominantly to customers operating in the 'services and other' and 'real estate (commercial)' sectors. The Group's exposure to sub-sectors that are currently considered 'at risk' due to the COVID-19 pandemic, such as 'accommodation and food services' (within the 'services and other' sector) and 'transport and storage' (within the 'transport, storage and utilities' sector), has remained limited and relatively stable through the pandemic, with exposure for these sub-sectors decreasing from £54.2 million and £121.2 million respectively as at 31 December 2019 to £35.8 million and £117.5 million respectively as at 30 June 2020. The risk of exposure to these sectors has been managed by updating the Group's risk appetite statement and implementation of a number of government, regulatory and central bank support initiatives.

Key risk categories (continued)

Liquidity risk

This section is not covered by the Independent Review Report on page 32.

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.

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

Liquidity buffer

The Group maintains a liquidity buffer which can be called upon to create sufficient liquidity in order to meet cash and collateral outflows and regulatory requirements set by the PRA.

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

	30 Jun 2020 (Unaudited) £m	31 Dec 2019 (Audited) £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	**2,257.3**	1,051.8
Central government assets (LCR level 1 assets)	**23.0**	22.8
Extremely high-quality covered bonds (LCR level 1 assets)	**99.0**	93.6
High-quality covered bonds (LCR level 2A assets)	**9.0**	-
Total liquidity buffer	**2,388.3**	1,168.2

Liquidity coverage ratio

A range of early warning indicators are monitored for early signs of liquidity risk. These include a range of quantitative and qualitative measures and includes the close monitoring of the liquidity coverage ratio.

The liquidity coverage ratio aims to monitor the resilience of the Group to a liquidity risk over a 30-day period and is set out in the below table:

	30 Jun 2020 (Unaudited)	31 Dec 2019 (Audited)
Liquidity buffer (£m)	**2,388.3**	1,168.2
Total net cash outflows (£m)	**591.4**	425.6
Liquidity coverage ratio (%)	**403.8**	274.5

Operational risk

This section is not covered by the Independent Review Report on page 32.

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.

During the period ended 30 June 2020, operational resilience has been demonstrated in a number of ways, particularly during the COVID-19 lockdown period. There have been no significant system failures or errors which has demonstrated the resilience of the Group's IT infrastructure and associated controls. All key business services have continued to operate under the remote working structure, ensuring ongoing support for the Group's customers and employees. Throughout the COVID-19 lockdown period, the governance structure of the Group has been maintained through technology such as Zoom and Skype. This allowed the Incident Management Team and Incident Management Implementation Team to fully address all key risks as well as drive a forward-looking strategy in line with government guidelines. Prior to re-opening the Group's offices, a full COVID-19 accreditation will be obtained to ensure the protection of all employees.

Key risk categories (continued)

Conduct, legal and compliance risk

This section is not covered by the Independent Review Report on page 32.

Conduct risk is the risk that the Group's actions will result in poor customer outcomes and that the Group's people fail to behave with integrity.

Legal and compliance risk is the risk of regulatory enforcement and sanction, material financial loss, or loss to reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.

During the period ended 30 June 2020, conduct risks were raised by each business area for consideration by the Risk Committee. The Risk Committee reviewed the risks raised and whether Management's proposed actions were appropriate to mitigate the risks effectively and to ensure that all complaints are being fairly addressed. The Group has continued to incur costs in relation to litigation and complaints. Costs include customer redress and remediation, specifically in relation to exposure to Section 75 of the Consumer Credit Act relating to solar panels within its Consumer Lending business, with key accounting judgements considered by the Audit Committee. Resolution of these matters remains a necessary and important part of delivering the Group's strategy and risk appetite. Risk appetite is assessed by the business areas through key indicators which are aggregated and provide an overall rating which is reported to the Risk Committee as part of the Group's Risk Appetite Dashboard. This is supported by additional tools such as the Conduct Risk and Control Self-Assessment. As a result of this analysis, the Group has reconsidered its appetite for lending with Section 75 exposure.

Capital risk and management

This section is not covered by the Independent Review Report on page 32.

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 are detailed in the Risk Management Report in the 2019 Annual Report and Accounts.

Regulatory capital developments

On 11 March 2020, as part of a package of special measures to support the economy from the impact of the COVID-19 pandemic, the Financial Policy Committee announced a reduction in the UK countercyclical buffer from 1% to 0% with immediate effect. The Financial Policy Committee does not expect an increase in the countercyclical capital buffer until March 2022 at the earliest.

In May 2020, the PRA published its intention to alleviate unwarranted pressure on firms due to the economic shock from COVID-19 by setting the Pillar 2A capital requirement as a nominal amount as opposed to a percentage of risk-weighted assets. The Group's Capital Supervisory Review and Evaluation Process is due to take place in the second half of 2020, at which point it will expect to understand the relevant amendments to the Pillar 2A capital requirement.

One of the Capital Requirements Regulation (CRR) amendments being brought forward from their original implementation dates by the European Parliament is the revised SME supporting factor. This was originally due to become applicable on 28 June 2021 but has been accelerated to incentivise banks to prudently increase lending to SME's during the COVID-19 pandemic. Whilst the amendment was approved by the European Council in June 2020 and published in the Official Journal of the EU on 26 June 2020, the PRA published a statement on 30 June 2020 advising that they would be requesting further data prior to making a decision as to whether to adopt the change for the UK.

Following the Basel Committee on Banking Supervision's press release on 27 March 2020, the proposed implementation of the new Standardised Approach for credit risk weighted assets has been delayed until 1 January 2023.

IFRS 9 transitional arrangements

The Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9 'Financial Instruments'. The transitional approach involves phasing in the full impact using transitional factors published in Regulation (EU) 2017/2395. This permits the Group to add back to their capital base a proportion of the impact that IFRS 9 has upon their loss allowances for non-credit impaired loans during the first five years of implementation. This add back is referred to throughout the capital risk disclosures as the 'transitional adjustment for IFRS 9'.

Per the transitional factors set out in Regulation (EU) 2017/2395, the proportion that the Group may add back in 2020 is 70% (2019: 85%). However, in response to the COVID-19 pandemic, the EU have reviewed the transitional arrangements and reached agreement to reset the proportions for relevant provisions raised from 1 January 2020, as set out in the CRR 'Quick Fix', a change that has been accepted by the PRA. As a result, for provisions raised from 1 January 2020, the revised add-back percentages will be set at 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. Provisions raised prior to 2020, will continue to follow the original transitional factors set out in Regulation (EU) 2017/2395. The revised approach is designed to assist firms to navigate through the COVID-19 pandemic and any following economic impacts that may arise.

Capital risk and management (continued)

Capital risk disclosures

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

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

	30 Jun 2020 £m	31 Dec 2019 £m
Share capital	**2.5**	2.5
Share premium account	**87.3**	87.3
Retained earnings	**552.8**	551.9
Intangible assets	**(66.3)**	(66.6)
Transitional adjustment for IFRS 9	**50.9**	22.1
Common Equity Tier 1 capital	**627.2**	597.2
Capital securities	**124.0**	124.0
Additional Tier 1 capital	**124.0**	124.0
Total Tier 1 capital	**751.2**	721.2
Subordinated debt liability[1]	**94.4**	94.4
Tier 2 capital	**94.4**	94.4
Total regulatory capital	**845.6**	815.6

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

	30 Jun 2020 £m	31 Dec 2019 £m
Total regulatory capital	**845.6**	815.6
Subordinated debt liability[1]	**(94.4)**	(94.4)
Intangible assets	**66.3**	66.6
Transitional adjustment for IFRS 9	**(50.9)**	(22.1)
Total equity	**766.6**	765.7

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

	30 Jun 2020	31 Dec 2019
Risk-weighted assets (£m)	**5,110.8**	4,974.5
Common Equity Tier 1 capital ratio (%)	**12.3**	12.0
Total Tier 1 capital ratio (%)	**14.7**	14.5
Total capital ratio (%)	**16.5**	16.4
Leverage ratio (%)	**7.7**	8.6

The Total Capital Requirement of the Group is 10.27% of risk-weighted assets (31 December 2019: 10.27% of risk-weighted assets).

[1] For the purpose of regulatory capital calculations, capitalised interest of £1.4 million is excluded (31 December 2019: £1.5 million). Accrued interest is payable semi-annually and is therefore excluded from capital reserves.

Capital risk and management (continued)

IFRS 9 transitional arrangements impact analysis

As detailed on page 28, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following table provides an overview of the Group's reported capital metrics (including transitional adjustments), compared to the capital metrics if IFRS 9 transitional arrangements had not been applied (i.e. full adoption):

	30 Jun 2020		31 Dec 2019	
	Including transitional adjustments	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**627.2**	**576.3**	597.2	575.1
Total Tier 1 capital (£m)	**751.2**	**700.3**	721.2	699.1
Total regulatory capital (£m)	**845.6**	**794.7**	815.6	793.5
Risk-weighted assets				
Total risk-weighted assets (£m)	**5,110.8**	**5,068.5**	4,974.5	4,955.5
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.3**	**11.4**	12.0	11.6
Total Tier 1 Capital Ratio (%)	**14.7**	**13.8**	14.5	14.1
Total capital ratio (%)	**16.5**	**15.7**	16.4	16.0
Leverage				
Leverage ratio total exposures (£m)	**9,792.5**	**9,741.6**	8,337.7	8,315.6
Leverage ratio (%)	**7.7**	**7.2**	8.6	8.4

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge:

- the condensed consolidated interim financial statements 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 Management Report includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the Interim Management Report includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

Approved by the Board of Directors and signed on behalf of the Board on 7 August 2020.

Daniel Rushbrook
Company Secretary

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 financial report for the six months ended 30 June 2020 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 financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

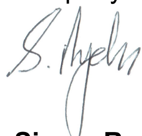
A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

The annual financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report 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 financial 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 to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.



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

7 August 2020

Condensed consolidated statement of profit and loss and other comprehensive income

For the six months ended 30 June (Unaudited)	Note	2020 £m	2019 £m
Interest income calculated using the effective interest rate method	3	**201.5**	195.3
Other interest and similar income	3	**(2.1)**	-
Interest expense and similar charges	4	**(61.7)**	(51.8)
Net interest income		**137.7**	143.5
Operating lease rental income		**5.3**	5.1
Depreciation on operating leases		**(4.3)**	(4.3)
Other operating lease income		**-**	0.1
Net income from operating leases		**1.0**	0.9
Fee and commission income		**4.3**	4.9
Fee and commission expense		**(4.7)**	(4.4)
Net fee and commission (expense)/income		**(0.4)**	0.5
Net (losses)/gains on financial instruments mandatorily at fair value through profit or loss[1]		**(3.0)**	0.5
Net loss on derecognition of financial assets measured at amortised cost	11	**(0.2)**	-
Other operating income/(expense)[1]		**2.8**	(0.6)
Net operating income		**137.9**	144.8
Administrative expenses[1]	5	**(64.3)**	(70.1)
Impairment losses on financial assets	6	**(55.3)**	(18.4)
Provisions for liabilities and charges	12	**(12.4)**	(0.6)
Total operating expenses		**(132.0)**	(89.1)
Share of results of associates		**-**	(0.1)
Profit before tax		**5.9**	55.6
Tax	7	**(0.3)**	(13.5)
Profit after tax, being total comprehensive income, attributable to owners		**5.6**	42.1

The notes on pages 37 to 51 are an integral part of these condensed consolidated interim financial statements.

[1] Comparatives for the period ended 30 June 2019 have been restated to reclass £0.6 million of foreign exchange gains on derivative financial instruments, from administrative expenses to net (losses)/gains on financial instruments mandatorily at fair value through profit or loss. Other foreign exchange losses of £0.6 million have also been reclassified from administrative expenses to other operating income/(expense). The net impact to administrative expenses is £nil and net operating income and total operating expenses are unchanged as a result of this reclass. This restatement aligns the comparative period presentation with current period presentation and is consistent with the presentation used in the 2019 Annual Report and Accounts.

Condensed consolidated statement of financial position

	Note	**30 Jun 2020 (Unaudited) £m**	31 Dec 2019 (Audited) £m
Assets			
Cash and balances at central banks		**2,272.5**	1,064.6
Loans and advances to banks		**94.0**	59.1
Loans and advances to customers	8	**6,803.0**	6,637.7
Investment securities	9	**266.0**	200.0
Derivative financial assets	13	**3.0**	4.4
Property, plant and equipment		**53.7**	57.2
Intangible assets	10	**66.3**	66.6
Current tax receivable		**9.2**	-
Deferred tax assets		**14.9**	14.9
Investment in associate		**5.4**	5.4
Other assets		**11.2**	9.0
Assets held for sale	11	**-**	104.1
Total assets		**9,599.2**	8,223.0
Liabilities			
Amounts due to banks		**804.6**	881.6
Customer deposits		**7,610.7**	6,109.4
Provisions for liabilities and charges	12	**14.6**	8.3
Derivative financial liabilities	13	**48.5**	14.9
Debt securities in issue	14	**213.7**	240.7
Current tax liabilities		**-**	1.0
Lease liabilities		**9.0**	12.4
Other liabilities		**35.7**	93.1
Subordinated debt liability	15	**95.8**	95.9
Total liabilities		**8,832.6**	7,457.3
Equity			
Share capital		**2.5**	2.5
Share premium account		**87.3**	87.3
Capital securities		**124.0**	124.0
Retained earnings		**552.8**	551.9
Total equity		**766.6**	765.7
Total equity and liabilities		**9,599.2**	8,223.0

The notes on pages 37 to 51 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 2020 and were signed on its behalf by:

Ian Cowie
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 07240248

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2020 (Unaudited)	**Share capital £m**	**Share premium account £m**	**Capital securities £m**	**Retained earnings £m**	**Total equity £m**
As at 1 January 2020	**2.5**	**87.3**	**124.0**	**551.9**	**765.7**
Profit for the period	**-**	**-**	**-**	**5.6**	**5.6**
Share-based payments	**-**	**-**	**-**	**0.2**	**0.2**
Coupon paid on capital securities	**-**	**-**	**-**	**(4.9)**	**(4.9)**
As at 30 June 2020	**2.5**	**87.3**	**124.0**	**552.8**	**766.6**

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

The notes on pages 37 to 51 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 June (Unaudited)	Note	2020 £m	2019 £m
Cash flows from operating activities[1]			
Profit before tax		**5.9**	55.6
Adjustments for non-cash items and other adjustments included in the statement of profit and loss		**58.2**	15.1
Increase in operating assets	16	**(116.3)**	(609.5)
Increase in operating liabilities	16	**1,483.8**	557.7
Tax paid		**(10.5)**	(11.9)
Net cash generated from operating activities		**1,421.1**	7.0
Cash flows from investing activities[1]			
Purchase of investment securities		**(66.4)**	(57.0)
Purchase of property, plant and equipment		**-**	(0.5)
Purchase and development of intangible assets		**(4.2)**	(4.7)
Net cash used by investing activities		**(70.6)**	(62.2)
Cash flows from financing activities[1]			
Decrease in amounts due to banks		**(77.0)**	(9.6)
Issue of debt securities		**-**	250.0
Redemption of debt securities		**(27.5)**	-
Costs arising on issue of debt securities		**-**	(1.6)
Payment of lease liabilities		**(0.9)**	(0.7)
Coupon paid to holders of capital securities		**(4.9)**	(4.9)
Net cash (used by)/generated from financing activities		**(110.3)**	233.2
Net increase in cash and cash equivalents		**1,240.2**	178.0
Cash and cash equivalents as at 1 January	16	**1,111.2**	686.9
Cash and cash equivalents as at 30 June	16	**2,351.4**	864.9

The notes on pages 37 to 51 are an integral part of these condensed consolidated interim financial statements.

[1] Comparatives for the period ended 30 June 2019 have been restated to present interest received from investment securities and interest paid on subordinated debt as a cash flow from operating activities rather than a cash flow from investing activities/financing activities respectively. This restatement aligns the comparative period presentation with current period presentation and is consistent with the presentation used in the 2019 Annual Report and Accounts.

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 2020, 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 2020, 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 2019 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 going concern basis (see Note 1.3) and on a historical cost basis, except as required in the valuation of certain financial instruments (i.e. derivative 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 comparative figures for the six months ended 30 June 2019 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 2019 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. Going concern

The condensed consolidated interim financial statements are prepared on a going concern basis, as the Directors believe that the Group has sufficient resources to continue its activities for the 12 months from the date of approval of the Interim Financial Statements and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the PRA.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of impairments and profitability, cash flows and capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans have been stress tested under a range of stressed scenarios and have been reviewed by the Directors.

In respect of the impacts of COVID-19, particular attention was paid to reviewing the Group's operations, customers, funding, impairments and profitability, both in the short and long-term. This included consideration of different scenarios and stress events. The uncertainties surrounding the potential outcomes of COVID-19 on the economy and the potential ongoing impact it will have on how we and customers will operate, means forecasting is a more complex task than normal.

The Group started the COVID-19 period with a strong capital surplus and has also increased the liquidity buffer during the crisis. The current liquidity position and forecast remain within Board Risk Appetite. As at 30 June 2020, the Group held £2.4 billion of balance sheet assets for liquidity purposes. Additionally, more than 65% of the Group's retail funding is fixed term deposits or notice accounts.

1. Basis of preparation and accounting policies (continued)

1.3. Going concern (continued)

The Directors assessed the financial implications of the risks associated with COVID-19, including the expected effect of management actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the ICAAP. This scenario was the 'Rates Down' scenario specified by the Bank of England for use in preparing ICAAP stress tests. Having regard for the severe financial outcomes from this scenario and the reverse stress tests also conducted, the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, over the going concern period.

1.4. Presentation of risk disclosures

Certain disclosures outlined in IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to financial instruments have been included within the Interim Risk Management Report.

1.5. Changes in significant accounting policies

Except where detailed below, the accounting policies applied in the condensed consolidated interim financial statements are consistent with those described in Note 1.7 of the 2019 Annual Report and Accounts, as are the methods of computation. These accounting policies, along with the changes detailed below, are also expected to be reflected in the 2020 Annual Report and Accounts.

Several amendments and interpretations are effective from 1 January 2020 but do not have a material impact on the condensed consolidated interim financial statements of the Group.

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

Changes in accounting policies to note are as follows:

Hedge accounting

Hedge effectiveness testing was previously performed by the Group exclusively using the dollar-offset method. In the current period, the dollar-offset method continues to be used, however certain trades designated in dynamic hedge accounting relationships now use the regression method.

1.6. Critical accounting estimates and judgements

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported results and financial position. Due to the inherent uncertainty in making estimates, actual results reported in the future 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.

The areas involving the most complex and subjective judgements and areas where assumptions and estimates are considered to have the most significant effect on the financial statements are the same as those set out in Note 1.9 of the 2019 Annual Report and Accounts. Updates to these critical accounting estimates and judgements are set out below.

The COVID-19 pandemic gives rise to heightened levels of uncertainty. The duration of the pandemic, including the possibility of subsequent waves, and the effectiveness of steps undertaken by the UK Government and Bank of England remain uncertain. This has required Management to make particularly complex judgements and estimates in the current period. Where applicable, Management's consideration of the impacts of COVID-19 are set out in the below updates. Management will continue to closely monitor the changing conditions and their impact on areas involving judgement and the use of estimates.

(a) Effective interest rate

The main source of revenue for the Group is interest income on loans and advances to customers which is recorded using the effective interest rate method. This calculation is subject to judgement and estimation uncertainty, specifically in relation to estimates of the expected life of each loan and the profile of loan payments over this period.

1. Basis of preparation and accounting policies (continued)

1.6 Critical accounting estimates and judgements (continued)

The methodology used is unchanged in the current period. Based on an assessment of available information, the assumptions applied for the most part remain unchanged, however there was an update made to the rate at which early redemption charges are recognised on commercial mortgages.

Management specifically considered the impact of COVID-19 on the expected life of loans and the profile of loan payments. Based on available information, no evidence has so far been identified that would require any further amendments to the assumptions applied. The Group will continue to monitor the impact of COVID-19 and will update key assumptions and judgements as new information emerges.

Sensitivity analysis was performed to assess the impact of a 10% acceleration in the redemption curves used, which could potentially shorten the expected life. This would result in a net expense to the statement of profit and loss of £0.2 million. This is attributable to the Property Finance and Consumer Lending divisions, as follows:

- Property Finance would see an increase in profit of £0.1 million. This is largely due to income received from early settlement fees, offset against broker fee amortisation.
- Consumer Lending would see a decrease in profit of £0.3 million. This is mainly attributable to the acceleration of the amortisation of broker commissions.

(b) Impairment testing of goodwill

Goodwill is tested for impairment annually in December and at the end of each reporting period if there is an indication that impairment may exist. Goodwill is impaired if the carrying amount of a cash generating unit exceeds its recoverable amount. Determining the recoverable amount is subject to judgement and estimation uncertainty, specifically in relation to forecast cash flows and the discount rates used.

At the end of the current period, the Group performed a review for indicators of impairment. The widespread impact of the COVID-19 pandemic was deemed to present indicators of impairment. As a result, the Group reperformed goodwill impairment testing. The method and assumptions applied in performing impairment testing were consistent with those disclosed in the 2019 Annual Report and Accounts except as follows:

- projected cash flows were updated to reflect the impact of COVID-19. The cash flow period remained at five years of cash flows.
- terminal value growth rate was reduced from 2% to 1%.
- post-tax discount rates used were increased by 1.1% resulting in a post-tax discount rate of 16.6% for Property Finance and 17.1% for Business Finance.

No impairment was identified as a result of the updated impairment testing.

Sensitivity analysis was performed to evaluate the impact of a 10% decrease in cash flows, a decrease in the terminal value growth rate to 0% and an increase in the applied post-tax discount rate of 1%. It was concluded that none of these changes, either individually or in combination, would result in any impairment to goodwill.

(c) Customer remediation and conduct issues

Provisions have been recognised in respect of 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. In determining the amount of these provisions, it will often be necessary to form a view on matters which are inherently uncertain.

The methodology and assumptions used in deriving the provision are largely unchanged in the current period. Changes in the current period include assumptions being updated to reflect actual claims experience. This has led to some amendments relating to estimated complaint volumes, claim uphold rates and average redress per claim. Furthermore, estimated redress amounts are now based on actual claim data.

Sensitivity analysis was performed to assess the impact of reasonable changes to certain key assumptions used in the provision calculation as follows:

- Customer initiated complaint volume: the impact of a +/-5 percentage point change in the number of complaints would result in a £5.0 million increase or decrease in the provision, respectively.
- Average uphold rate per complaint: the impact of a +/-5 percentage point change in the average uphold rate per complaint would result in a £0.9 million increase or decrease in the provision, respectively.
- Average redress per valid complaint: the impact of a £500 increase or decrease in the average redress per complaint would result in a £1.0 million increase or decrease in the provision, respectively.

1. Basis of preparation and accounting policies (continued)

1.6 Critical accounting estimates and judgements (continued)

(d) Impairment losses on financial assets

The calculation and measurement of ECLs requires significant judgement and represents a key source of estimation uncertainty. Updates to the critical judgements and accounting estimates are set out in the creditworthiness risk section of the Interim Risk Management Report (see page 15).

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 ('Savings and Central') which represents the Savings business, central functions and shared central costs.

Further details of the four segments are provided in the divisional review (see page 8).

The following tables provide information regarding the results of each reportable segment, and their reconciliation to the Group total, for the six months ended 30 June 2020 and 30 June 2019 respectively. All revenue for each operating segment is earned from external customers.

For the six months ended 30 June 2020 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Savings and Central £m	Total £m
Interest income calculated using the effective interest rate method	114.7	56.6	26.9	3.3	201.5
Other interest and similar income	-	-	-	(2.1)	(2.1)
Interest expense and similar charges	(40.4)	(10.9)	(4.5)	(5.9)	(61.7)
Net interest income/(expense)	**74.3**	**45.7**	**22.4**	**(4.7)**	**137.7**
Operating lease rental income	-	5.3	-	-	5.3
Depreciation of operating leases	-	(4.3)	-	-	(4.3)
Net income from operating leases	**-**	**1.0**	**-**	**-**	**1.0**
Fee and commission income	0.1	4.1	0.1	-	4.3
Fee and commission expense	(1.9)	(0.2)	(1.8)	(0.8)	(4.7)
Net fee and commission (expense)/income	**(1.8)**	**3.9**	**(1.7)**	**(0.8)**	**(0.4)**
Net losses on financial instruments mandatorily at fair value through profit or loss	-	-	-	(3.0)	(3.0)
Net loss on derecognition of financial assets measured at amortised cost	-	-	(0.2)	-	(0.2)
Other operating income	-	-	-	2.8	2.8
Net operating income/(expense)	**72.5**	**50.6**	**20.5**	**(5.7)**	**137.9**
Administrative expenses	(8.7)	(10.9)	(7.4)	(37.3)	(64.3)
Impairment losses on financial assets	(9.7)	(20.7)	(24.9)	-	(55.3)
Provisions for liabilities and charges	-	(1.5)	(10.9)	-	(12.4)
Total operating expenses	**(18.4)**	**(33.1)**	**(43.2)**	**(37.3)**	**(132.0)**
Profit/(loss) before tax	**54.1**	**17.5**	**(22.7)**	**(43.0)**	**5.9**

2. Operating segments (continued)

For the six months ended 30 June 2019 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Savings and Central £m	Total £m
Interest income calculated using the effective interest rate method	104.1	52.4	35.1	3.7	195.3
Other interest and similar income	-	-	-	-	-
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 gains on financial instruments mandatorily at fair value through profit or loss[1]	-	-	-	0.5	0.5
Other operating expense[1]	-	-	-	(0.6)	(0.6)
Net operating income/(expense)	71.3	48.0	27.7	(2.2)	144.8
Administrative expenses[1]	(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

The following tables present information about the assets and liabilities of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively. Certain assets and liabilities are not allocated to segments as they are managed on a Group basis.

As at 30 June 2020 (Unaudited)	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Savings and Central £m**	**Total £m**
Assets	**4,759.3**	**1,586.1**	**499.1**	**2,754.7**	**9,599.2**
Liabilities	**-**	**-**	**-**	**(8,832.6)**	**(8,832.6)**
Net assets/(liabilities)	**4,759.3**	**1,586.1**	**499.1**	**(6,077.9)**	**766.6**

As at 31 December 2019 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Savings and Central £m	Total £m
Assets	4,433.7	1,664.8	683.2	1,441.3	8,223.0
Liabilities	-	-	-	(7,457.3)	(7,457.3)
Net assets/(liabilities)	4,433.7	1,664.8	683.2	(6,016.0)	765.7

[1] Comparatives for the period ended 30 June 2019 have been restated to reclass £0.6 million of foreign exchange gains on derivative financial instruments, from administrative expenses to net gains on financial instruments mandatorily at fair value through profit or loss. Other foreign exchange losses of £0.6 million have also been reclassified from administrative expenses to other operating expense. The net impact to administrative expenses is £nil and net operating income and total operating expenses are unchanged as a result of this reclass. This restatement aligns the comparative period presentation with current period presentation and is consistent with the presentation used in the 2019 Annual Report and Accounts.

3. Interest and similar income

For the six months ended 30 June (Unaudited)	**2020 £m**	2019 £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	**2.3**	2.6
On loans and advances to customers	**198.2**	191.6
On investment securities	**1.0**	1.1
Total interest income calculated using the effective interest rate method	**201.5**	195.3
Other interest and similar income		
On derivative financial instruments	**(2.1)**	-
Total other interest and similar income	**(2.1)**	-
Total interest and similar income	**199.4**	195.3

Interest income recognised during the six months ended 30 June 2020 on credit-impaired (Stage 3) loans is £5.0 million (30 June 2019: £3.1 million).

The Group did not capitalise any interest income in either reported period.

Recognition of income using the effective interest rate method is an area identified as involving critical accounting estimates and judgement. Details of the key assumptions used and sensitivity analysis were set out in Note 1.9(a) of the 2019 Annual Report and Accounts and updates are provided in Note 1.6(a) of this report.

4. Interest expense and similar charges

For the six months ended 30 June (Unaudited)	**2020 £m**	2019 £m
On amounts due to banks	**2.5**	4.7
On customer deposits	**53.2**	43.7
On derivative financial instruments	**(0.1)**	(0.3)
On debt securities in issue	**2.1**	0.4
On lease liabilities	**0.2**	0.1
On subordinated debt liability	**3.8**	3.2
Total interest expense and similar charges	**61.7**	51.8

5. Administrative expenses

For the six months ended 30 June (Unaudited)	**2020 £m**	2019 £m
Payroll costs	**34.0**	35.8
Depreciation[1]	**1.9**	1.6
Loss on disposal of property, plant and equipment	**-**	0.1
Amortisation of intangible assets	**4.0**	4.0
Loss on disposal of intangible assets	**0.5**	-
Other administrative expenses	**23.9**	28.6
Total administrative expenses	**64.3**	70.1

Payroll costs include share-based payment charges for the six months ended 30 June 2020 of £0.2 million (six months ended 30 June 2019: £0.7 million). There were no movements in the number of share-based awards during the six months ended 30 June 2020.

[1] Depreciation included within administrative expenses includes depreciation of all asset categories except for assets on operating leases. Depreciation of assets on operating leases is presented as a separate line item in the statement of profit and loss.

6. Impairment losses on financial assets

Impairment losses on financial assets relate to the Group's loans and advances to customers, as set out in the table below. Impairment losses on the Group's other financial asset categories (cash and balances at central banks, loans and advances to banks and investment securities) are immaterial in both reported periods, totalling less than £0.1 million.

For the six months ended 30 June (Unaudited)	2020 £m	2019 £m
Expected credit loss charge for the period	**45.8**	4.0
Loan balances written-off in the period	**12.1**	17.3
Amounts recovered in the period in respect of loan balances previously written-off	**(2.6)**	(2.9)
Total impairment losses on financial assets	**55.3**	18.4

Further analysis of the ECL charge for the period is set out in the Interim Risk Management Report (see page 21). The calculation of ECLs is an area identified as involving critical accounting estimates and judgement. Details of the judgements and key assumptions used and sensitivity analysis were set out in Note 1.9(d) of the 2019 Annual Report and Accounts and updates are provided in Note 1.6(d) of this report.

7. 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 for the six months ended 30 June 2020 is 22.7%, compared to 24.4% for the six months ended 30 June 2019. The tax rate was higher in 2019 due to the impact of the banking surcharge on higher profits.

Based on the above tax rates, the tax charge recognised in the statement of profit and loss for the period ended 30 June 2020 is £0.3 million (30 June 2019: £13.5 million).

8. Loans and advances to customers

	30 Jun 2020 (Unaudited)			31 Dec 2019 (Audited)		
	Gross carrying amount £m	**Loss allowance £m**	**Carrying amount £m**	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Loan receivables	**6,404.7**	**(86.0)**	**6,318.7**	6,226.6	(47.4)	6,179.2
Finance lease receivables	**77.2**	**(6.4)**	**70.8**	81.0	(6.4)	74.6
Instalment credit receivables	**385.7**	**(14.5)**	**371.2**	382.4	(7.3)	375.1
	6,867.6	**(106.9)**	**6,760.7**	6,690.0	(61.1)	6,628.9
Fair value adjustments for hedged risk			**42.3**			8.8
Total loans and advances to customers			**6,803.0**			6,637.7

Further analysis of the Group's loans and advances to customers and the associated loss allowance can be found in the Interim Risk Management Report (see page 18).

Total loans and advances to customers include:

- £1,053.9 million (31 December 2019: £974.2 million) positioned with the Bank of England for use as collateral against amounts drawn under its Term Funding Scheme.
- £63.6 million (31 December 2019: £163.6 million) pledged as collateral against secured bank borrowings.
- £278.9 million (31 December 2019: £286.2) pledged to securitisation programmes.

9. Investment securities

Six months ended 30 June 2020 (Unaudited)	**Covered bonds £m**
As at 1 January 2020	**200.0**
Additions	**66.4**
Accrued interest	**(0.4)**
As at 30 June 2020	**266.0**

Investment securities include £150.0 million (31 December 2019: £100.0 million) positioned with the Bank of England for use as collateral against amounts drawn under its Term Funding Scheme.

The loss allowance for investment securities is immaterial totalling less than £0.1 million.

10. Intangible assets

	30 Jun 2020 (Unaudited) £m	31 Dec 2019 (Audited) £m
Goodwill	**43.7**	43.7
Computer software	**22.6**	22.9
Total intangible assets	**66.3**	66.6

Impairment testing of goodwill
Impairment testing of goodwill is an area identified as involving critical accounting estimates and judgements. Details of the key assumptions used and sensitivity analysis were set out in Note 1.9(b) of the 2019 Annual Report and Accounts and updates are provided in Note 1.6(b) of this report.

The widespread impact of the COVID-19 pandemic was deemed to present indicators of impairment. As a result, the Group reperformed goodwill impairment testing. No impairment was identified as a result of the updated impairment testing.

11. Assets held for sale

As at 31 December 2019, a portfolio of unsecured personal loans from the Consumer Lending division with a carrying amount of £104.1 million met the criteria to be classified as a disposal group held for sale. A deposit of £48.9 million was received in December 2019 in respect of these loans which was recognised in other liabilities.

In January 2020, the sale of the loan portfolio was completed. A net loss of £0.2 million arising from the derecognition of these loans is recognised in the statement of profit and loss. All remaining proceeds for the sale were received during the six months to 30 June 2020.

12. Provisions for liabilities and charges

Six months ended 30 June 2020 (Unaudited)	**Loss provision £m**	**Other provisions £m**	**Total £m**
As at 1 January 2020	**1.0**	**7.3**	**8.3**
Utilised in the period	**-**	**(6.1)**	**(6.1)**
Provisions made in the period	**1.5**	**10.9**	**12.4**
As at 30 June 2020	**2.5**	**12.1**	**14.6**

Loss provision
The loss provision represents the loss allowance on financial guarantee contracts and loan commitments. The £2.5 million loss allowance as at 30 June 2020 comprises £2.3 million on Stage 1 loan commitments and £0.2 million on Stage 2 loan commitments (30 June 2019: £1.0 million on Stage 1 loan commitments).

Other provisions
Other provisions are provisions made in relation to customer remediation and conduct issues. The calculation of such provisions is an area identified as involving critical accounting estimates and judgments. Details of the key assumptions used in deriving the provision and sensitivity analysis were set out in Note 1.9(c) of the 2019 Annual Report and Accounts and updates are provided in Note 1.6(c) of this report.

13. Derivative financial instruments and hedge accounting

		Assets		Liabilities
As at 30 June 2020 (Unaudited)	**Nominal amount £m**	**Carrying amount £m**	**Nominal amount £m**	**Carrying amount £m**
Interest rate swaps in hedging relationships	**244.7**	**0.2**	**1,325.9**	**33.0**
Other interest rate swaps[1]	**-**	**-**	**27.7**	**0.6**
Interest rate options in hedging relationships	**-**	**-**	**1,100.0**	**11.6**
Cross-currency swaps	**-**	**-**	**79.2**	**0.5**
Balance guaranteed swaps	**232.9**	**2.8**	**232.9**	**2.8**
Total	**477.6**	**3.0**	**2,765.7**	**48.5**

		Assets		Liabilities
As at 31 December 2019 (Audited)	Nominal amount £m	Carrying amount £m	Nominal amount £m	Carrying amount £m
Interest rate swaps in hedging relationships	546.2	2.3	915.0	9.6
Interest rate options in hedging relationships	-	-	1,150.0	4.0
Cross-currency swaps	40.0	0.8	-	-
Balance guaranteed swaps	236.2	1.3	236.2	1.3
Total	822.4	4.4	2,301.2	14.9

All hedge accounting relationships remain highly effective. Short-term payment holidays granted to customers in response to COVID-19 did not cause any of the hedge accounting relationships to fail hedge effectiveness testing.

14. Debt securities in issue

Six months ended 30 June 2020 (Unaudited)	**Asset backed loan notes £m**
As at 1 January 2020	**240.7**
Repurchases and redemptions	**(27.5)**
Interest expense and similar charges	**0.5**
As at 30 June 2020	**213.7**

All notes were issued through a Group company, Shawbrook Mortgage Funding 2019-1 which is a bankruptcy remote special purpose vehicle. Notes are secured on a portfolio of variable and fixed rate mortgage loans.

In April 2020, Shawbrook Bank Limited purchased £20.0 million of the externally issued notes. These internally held notes are eliminated on consolidation and are included in ‘repurchases and redemptions’ in the above table.

[1] Prior to the current period, interest rate swaps were all designated as hedging instruments in fair value hedge relationships. During the current period, the Group also began transacting some interest rate swaps that are not designated in hedge accounting relationships.

15. Subordinated debt liability

Six months ended 30 June 2020 (Unaudited)	£m
As at 1 January 2020	**95.9**
Interest expense and similar charges	**3.8**
Repayment of interest	**(3.9)**
As at 30 June 2020	**95.8**

16. Notes to the statement of cash flows

Net change in operating assets

For the six months ended 30 June (Unaudited)	2020 £m	2019 £m
Increase in mandatory deposits with central banks[1]	**(2.6)**	(1.1)
Increase in loans and advances to customers	**(211.1)**	(598.6)
Decrease/(increase) in derivative financial assets	**1.4**	(0.1)
Increase in operating lease assets	**(5.9)**	(7.6)
Increase in other assets	**(2.2)**	(2.1)
Decrease in assets held for sale	**104.1**	-
Increase in operating assets	**(116.3)**	(609.5)

Net change in operating liabilities

For the six months ended 30 June (Unaudited)	2020 £m	2019 £m
Increase in customer deposits	**1,501.3**	552.3
Increase/(decrease) in provisions for liabilities and charges	**6.3**	(3.4)
Increase in derivative financial liabilities	**33.6**	10.9
Decrease in other liabilities	**(57.4)**	(2.1)
Increase in operating liabilities	**1,483.8**	557.7

Cash and cash equivalents

	2020		2019	
(Unaudited)	30 June £m	1 January £m	30 June £m	1 January £m
Cash and balances at central banks	**2,272.5**	**1,064.6**	812.0	645.2
Loans and advances to banks	**94.0**	**59.1**	62.9	50.6
Less: mandatory deposits with central banks[1]	**(15.1)**	**(12.5)**	(10.0)	(8.9)
Total cash and cash equivalents	**2,351.4**	**1,111.2**	864.9	686.9

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

17. 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 2020 (Unaudited)			31 Dec 2019 (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	**-**	**2,272.5**	**2,272.5**	-	1,064.6	1,064.6
Loans and advances to banks	**-**	**94.0**	**94.0**	-	59.1	59.1
Loans and advances to customers	**-**	**6,803.0**	**6,803.0**	-	6,637.7	6,637.7
Investment securities	**-**	**266.0**	**266.0**	-	200.0	200.0
Derivative financial assets	**3.0**	**-**	**3.0**	4.4	-	4.4
Assets held for sale	**-**	**-**	**-**	-	104.1	104.1
Total financial assets	**3.0**	**9,435.5**	**9,438.5**	4.4	8,065.5	8,069.9
Financial liabilities						
Amounts due to banks	**-**	**804.6**	**804.6**	-	881.6	881.6
Customer deposits	**-**	**7,610.7**	**7,610.7**	-	6,109.4	6,109.4
Derivative financial liabilities	**48.5**	**-**	**48.5**	14.9	-	14.9
Debt securities in issue	**-**	**213.7**	**213.7**	-	240.7	240.7
Lease liabilities	**-**	**9.0**	**9.0**	-	12.4	12.4
Subordinated debt liability	**-**	**95.8**	**95.8**	-	95.9	95.9
Total financial liabilities	**48.5**	**8,733.8**	**8,782.3**	14.9	7,340.0	7,354.9

(b) Fair value of financial instruments

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 2019. Details are provided in Note 35 of the 2019 Annual Report and Accounts.

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).

17. Financial instruments (continued)

Financial instruments measured at amortised cost
The table below analyses the Group's financial instruments measured at amortised cost into the fair value hierarchy. In accordance with IFRS 7, fair value disclosures are not required for lease liabilities. Accordingly, lease liabilities are not included in the below tables.

There were no transfers between the levels of the fair value hierarchy during either of the reported periods.

	30 Jun 2020 (Unaudited)			31 Dec 2019 (Audited)		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets						
Cash and balances at central banks	**-**	**-**	**2,272.5**	-	-	1,064.6
Loans and advances to banks	**-**	**94.0**	**-**	-	59.1	-
Loans and advances to customers	**6,803.0**	**-**	**-**	6,637.7	-	-
Investment securities	**-**	**-**	**266.0**	-	-	200.0
Assets held for sale	**-**	**-**	**-**	104.1	-	-
Financial liabilities						
Amounts due to banks	**-**	**804.6**	**-**	-	881.6	-
Customer deposits	**-**	**7,610.7**	**-**	-	6,109.4	-
Debt securities in issue	**-**	**213.7**	**-**	-	240.7	-
Subordinated debt liability	**-**	**95.8**	**-**	-	95.9	-

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial instruments measured at amortised cost. Cash and balances at central banks, loans and advances to banks and assets held for sale are not included in the table, as the carrying amount is a reasonable approximation of fair value. Lease liabilities are also excluded from the table as fair value disclosures are not required.

	30 Jun 2020 (Unaudited)		31 Dec 2019 (Audited)	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets (at amortised cost)				
Loans and advances to customers	**6,803.0**	**7,052.6**	6,637.7	6,784.7
Investment securities	**266.0**	**267.6**	200.0	200.4
Financial liabilities (at amortised cost)				
Amounts due to banks	**804.6**	**799.7**	881.6	873.3
Customer deposits	**7,610.7**	**7,624.4**	6,109.4	6,121.1
Debt securities in issue	**213.7**	**212.8**	240.7	241.2
Subordinated debt liability	**95.8**	**97.2**	95.9	100.0

17. Financial instruments (continued)

Financial instruments measured at fair value
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 2020 (Unaudited)			31 Dec 2019 (Audited)		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets (at fair value)						
Derivative financial assets	**2.8**	**0.2**	-	1.3	3.1	-
Financial liabilities (at fair value)						
Derivative financial liabilities	**2.8**	**45.7**	-	1.3	13.6	-

Derivative financial assets and liabilities categorised as Level 3 are the Group's balance guaranteed swaps.

Changes in fair value measurement for financial instruments measured at fair value and categorised in Level 3 are as follows:

Six months ended 30 June 2020 (Unaudited)	**Derivative financial assets £m**	**Derivative financial liabilities £m**
As at 1 January 2020	**1.3**	**(1.3)**
Fair value gains/(losses) recognised in the statement of profit and loss	**1.5**	**(1.5)**
As at 30 June 2020	**2.8**	**(2.8)**

Fair value gains/(losses) recognised in the statement of profit and loss are recognised on the line 'Net (losses)/gains on financial instruments mandatorily at fair value through profit or loss'. All gains/(losses) recognised in the statement of profit and loss are unrealised.

18. Subsidiary companies

The Company's subsidiaries were detailed in Note 37 of the 2019 Annual Report and Accounts. During the period ended 30 June 2020, the following changes have taken place:

Centric Group Holdings Limited
Company number: 06402868. Dissolved on 4 February 2020.

Link Loans Limited
Company number: 06642090. As of 1 January 2020, the company is dormant.

In addition, the following entities are special purpose vehicles that were incorporated in the current period. The shares of these entities are ultimately beneficially owned through an independent trust. However, the entities are considered to be controlled by the Group and are therefore treated as subsidiaries of the Group.

Lanebrook Mortgage Transaction 2020-1 plc
Company number: 12654708. Incorporated on 9 June 2020 in England and Wales. The registered address of this entity is: 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX

Lanebrook Mortgage Transaction 2020-1 Holdings Limited
Company number: 12649363. Incorporated on 5 June 2020 in England and Wales. The registered address of this entity is: 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX.

19. Related party transactions

The Group's related party transactions were detailed in Note 38 of the 2019 Annual Report and Accounts.

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 2020. Related party transactions remain similar in nature to those disclosed for the year ended 31 December 2019.

20. Contingent liabilities

Contingent liabilities as at 30 June 2020, are unchanged from those identified and disclosed as at 31 December 2019. Details can be found in Note 40 of the 2019 Annual Report and Accounts.

21. Post balance sheet events

In July 2020, the Group refinanced a portion of its Tier 2 subordinated debt. Pursuant to a tender offer, the Group repurchased £74.8 million of its £75.0 million 8.5% fixed rate reset callable subordinated notes due 2025 at par. Repurchased notes were cancelled and were not re-issued or re-sold. In conjunction with this, the Group issued £75.0 million of new 9.0% fixed rate reset callable subordinated notes due 2030.

There have been no other significant events between 30 June 2020 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 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 capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of retail deposits	Interest expense on customer deposits, divided by, the average of monthly closing customer deposits.
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.
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 PRA 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

CBILS	Coronavirus Business Interruption Loan Scheme
CRR	Capital Requirements Regulation
ECL	Expected credit loss
EU	European Union
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
LCR	Liquidity coverage ratio
LIBOR	London Inter-Bank Offered Rate
MREL	Minimum requirements for own funds and eligible liabilities
PRA	Prudential Regulation Authority
SICR	Significant increase in credit risk since initial recognition
SME	Small and medium enterprise
SMS	Short message service

'Company' refers to: Shawbrook Group plc
'Group' refers to: the Company and its subsidiaries

Shawbrook Bank

Shawbrook Group plc, Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE.
Registered in England and Wales – Company Number 07240248.