Shawbrook Bank
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Shawbrook Group plc

Interim Results for the six months ended 30 June 2017

Important disclaimer

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

Basis of preparation

The statutory results have been prepared in accordance with with IAS 34 "Interim Financial Reporting". Where appropriate, certain aspects of our results are presented to reflect the Board's view of the Group's underlying performance without distortions caused by non-recurring items that are not reflective of the Group's ongoing business. These aspects are referred to as "underlying results" for the purposes of the Interim Report. Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory results and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items.

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

	H1 2017 (£m)	H1 2016 (£m)	FY 2016 (£m)
Interest income, net fee and operating lease income	151.7	140.1	292.7
Interest expense and similar charges	(36.9)	(40.8)	(83.1)
Net Operating Income	**114.8**	**99.3**	**209.6**
Costs and provisions	(71.9)	(49.8)	(97.1)
Impairment losses on financial assets	(10.2)	(14.3)	(24.3)
Statutory Profit Before Taxation	**32.7**	**35.2**	**88.2**
Income tax charge	(11.9)	(9.6)	(23.4)
Profit for the period, attributable to owners	**20.8**	**25.6**	**64.8**
Underlying Adjustments			
Project Marlin costs	12.7	-	-
IFRS 2 charges	5.9	1.8	2.2
Corporate activity costs	-	1.0	1.0
Underlying Profit Before Tax	**51.3**	**38.0**	**91.4**
Income tax on an underlying basis	(13.4)	(10.4)	(24.3)
Underlying profit for the period, attributable to owners	**37.9**	**27.6**	**67.1**

The underlying adjustments[a] are as follows:

- Project Marlin costs include expenses incurred in H1 2017 in relation to the offer from Marlin BidCo for the entire share capital of Shawbrook Group plc.

- IFRS 2 charges in H1 2017 relate to costs recognised in respect of share based awards made to employees that vested on Marlin BidCo gaining control of Shawbrook Group plc. Within this adjustment, £5.5m is a transfer from P&L to retained earnings. IFRS 2 charges in H1 2016 and FY 2016 relate to share-based awards

[a] In addition to the underlying adjustments outlined, the Board believes there were additional expenses incurred in 2016 which, in line with IOSCO and ESMA guidelines, were not adjusted for, but which the Board regards as unusual and highly unlikely to recur. These expenses relate to an £11.2 million impairment charge and £0.8 million of administrative expenses incurred in connection with the controls breach announced on 28 June 2016 in the Business Finance division. The Group believes that the steps taken to strengthen its risk controls, including the removal of certain delegated authorities and appropriate segregation of origination and operations activities, should minimise the risk of a further breach. If this adjustment was made, the underlying profit before tax (PBT) and cost of risk for the Group would have been £103.4 million and (0.35)% respectively for the year ended 31 December 2016 (30 June 2016: £46.7m and (0.34)% respectively).

to Steve Pateman, Chief Executive Officer, in 2016 which were fully satisfied by Special Opportunities Fund (Guernsey) LP. This is the result of a one-off award for compensation against forfeited long-term incentives at a previous employer.

- Corporate activity costs amounting to £1.0 million in H1 2016 and FY 2016 relate to the cost of the incremental deposits raised to prefund the acquisition of the c.£300 million property portfolio at the end of 2015, which completed in H2 2016. During the period between acquisition and completion, the portfolio was funded by the vendor due to the length of the transition period, and reimbursed by the Group, thus resulting in the Group paying to fund the portfolio twice.

Income tax charge on underlying adjustments has been calculated at the implied corporation tax rate. Income tax charge on certain underlying adjustments has been assumed as £nil on the basis of being disallowable for tax purposes.

Group Key Performance Indicators[b]

	H1 2017	H1 2016	FY 2016
Assets			
Average principal employed (£m)[(2)]	4,201.4	3,583.5	3,769.3
Loans and advances to customers (£m)[(3)]	4,408.3	3,823.3	4,088.5
Profitability (on an underlying basis)			
Net interest margin (%)[(4)]	5.5	5.6	5.6
Cost of risk (%)[(5)]	(0.49)	(0.80)	(0.64)
Return on lending assets before tax (%)[(6)]	2.5	2.1	2.4
Cost/income ratio (%)[(7)]	46.4	47.9	45.1
Asset quality			
Ratio of past due over 90 days and impaired loans (%)[(8)]	1.4	1.1	1.2
Liquidity			
Liquidity ratio (%)[(9)]	14.0	18.5	16.8
Capital and leverage			
CET1 ratio (%)[(10)]	12.8	13.0	13.3
Total capital ratio (%)[(11)]	15.6	16.1	16.4
Leverage ratio (%)[(12)]	7.8	7.6	7.8
Risk-weighted assets	3,083.0	2,607.4	2,778.6

[b] KPIs are calculated on an underlying basis. Please refer to the notes on page 5 for definitions and calculations.

Business Review

The business achieved a strong first half performance with underlying Profit Before Tax ("PBT") up 35% from the same period in 2016 to £51.3 million. This performance was driven by continued growth in our loan book by 15% to £4.4bn, with strong growth across all three divisions.

We have continued to deliver strong, sustainable returns, reflecting our disciplined approach to underwriting and pricing alongside continued investment to support the future growth of the loan book.

Achieve strong risk-adjusted returns

- The Group delivered a strong performance in H1 2017, with underlying PBT increasing by 35.0% to £51.3 million (H1 2016: £38.0 million). Statutory PBT of £32.7 million was impacted by costs incurred in connection with the acquisition of the Group by Marlin Bidco Limited, which has been adjusted for in the underlying results.
- The Group's underlying net interest margin remained stable in H1 2017 at 5.5% compared to 5.6% in H1 2016.

Maintain excellent credit quality

- The Group continues to experience a low cost of risk (H1 2017: 49bps), reflective of a benign economic environment and the continued focus on originating high quality business against prudent credit principles that have remained largely unchanged since the inception of the Bank.
- The current benign environment is also reflected in the Group's non-performing loan ratios. As at 30 June 2017, 1.4% of the Group's loans and advances to customers were 3+ months in arrears or impaired, with a coverage ratio of 47%. At 31 December 2016, these metrics were 1.2% and 51% respectively.

Progressively increase originations

- The Group's loan book reached £4.4 billion as at 30 June 2017, a 15% year-on-year increase in the loan book of £3.8 billion at 30 June 2016.
- Since 30 June 2017, in line with its existing strategy, the Group has continued to grow organically and through portfolio acquisition, with an estimated increase in risk-weighted assets of approximately £250 million as at 30 September 2017, representing an increase of approximately 8% to the Group's risk-weighted assets as at 30 June 2017. Of this £250 million, c. £109.6 million is related to the acquisition of a mixed professional landlord buy to let and CRE portfolio, in line with the existing business mix of the group.

Maintain conservative foundations

- The Group continues to maintain a strong capital position, with a CET1 ratio of 12.8% (31 December 2016: 13.3%) and a total capital ratio of 15.6% (31 December 2016: 16.4%). The Group's prudently positioned leverage ratio was stable at 30 June 2017 at 7.8% (31 December 2016: 7.8%). In H1 2017, the increase in retained earnings (excluding Project Marlin costs) provided a 123bps uplift to CET1. This was offset by Project Marlin costs of (41bps) and an increase in risk weighted assets (132bps).
- The liquidity ratio of 14.0% at 30 June 2017 compares with 16.8% at 31 December 2016.
- The Group continues to position risk appetite against its lending assets, with the majority of the Group's liquidity held with the Bank of England in addition to having drawn down £101 million from the Funding for Lending Scheme (FLS) and £510 million from the Term Funding Scheme (TFS) as at 30 June 2017. The Group continues to look to diversify its funding sources.
- The Group remains predominantly retail deposit funded, with a loan to deposit ratio of 114.5% (31 December 2016: 102.7%).

Enhance customer focus

- The Group continues to seek to identify opportunities to enhance its distribution channels, product set and target markets in order to further serve the needs of customers who fall outside the risk and distribution objectives of the mainstream banking providers. For example, the Consumer division successfully partnered with Confused.com to enable customers to receive personalised real-time rate quotations.

Notes to the Business Review

Certain financial measures disclosed in this report do not have a standardised meaning prescribed by the International Financial Reporting Standards (IFRS) and may therefore not be comparable to similar measures presented by other issuers. These measures are deemed to be Alternative Performance Measures (“APMs”), definitions for which are set out below.

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

1. All KPI ratios have been annualised for H1 2017 and H1 2016 based on the 181/182 calendar days between January and June.

2. Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of impairment provision, from the Group’s financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group’s statutory accounts.

3. Loans and advances to customers is presented net of impairment provision and includes operating leases, which are classified as property, plant and equipment in the Group’s statutory accounts.

4. Net interest margin is calculated as underlying net operating income divided by average principal employed.

5. Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.

6. Return on lending assets before tax is calculated as underlying profit before taxation divided by average principal employed.

7. The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.

8. The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers and dividing the sum by total gross loans and advances to customers.

9. The liquidity ratio is calculated as the liquidity reserve divided by customer deposits. The liquidity reserve comprises cash and balances at central banks (excluding mandatory balances held with central banks), loans and advances to banks, off balance sheet T-Bills but excludes additional available liquidity from pre-positioned assets.

10. The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets at the Group level. For the H1 2017 and H1 2016 ratios, half year retained earnings have been included.

11. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets at the Group level. For the H1 2017 and H1 2016 ratios, half year retained earnings have been included.

12. The leverage ratio is calculated as tier 1 capital divided by the sum of total assets (excluding intangible assets and include adjustments for certain off balance sheet items such as pipeline and undrawn collateral).

INDEPENDENT REVIEW REPORT TO SHAWBROOK GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 which comprises the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

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

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Simon Ryder
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL
24 November 2017

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	**6 Months ended 30 June 2017 (Unaudited) £m**	6 Months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Interest and similar income	3	**146.0**	133.6	280.2
Interest expense and similar charges	4	**(36.9)**	(40.8)	(83.1)
Net interest income		**109.1**	92.8	197.1
Operating lease rentals		**6.3**	6.9	13.5
Other income		**0.1**	0.1	0.1
Depreciation on operating leases		**(5.3)**	(5.8)	(11.3)
Net income from operating leases		**1.1**	1.2	2.3
Fee and commission income		**8.6**	7.0	15.4
Fee and commission expense		**(4.0)**	(1.6)	(5.7)
Net fee and commission income		**4.6**	5.4	9.7
Fair value gains/(losses) on financial instruments	10	**-**	(0.1)	0.5
Net operating income		**114.8**	99.3	209.6
Administrative expenses	5	**(71.7)**	(48.7)	(96.0)
Impairment losses on loans and advances to customers	9	**(10.2)**	(14.3)	(24.3)
Provisions for liabilities and charges	12	**(0.2)**	(1.1)	(1.1)
Total operating expenses		**(82.1)**	(64.1)	(121.4)
Profit before taxation		**32.7**	35.2	88.2
Income tax charge	7	**(11.9)**	(9.6)	(23.4)
Profit after taxation, being total comprehensive income, attributable to owners		**20.8**	25.6	64.8

Earnings per share		**6 Months ended 30 June 2017 (Unaudited) pence**	6 Months ended 30 June 2016 (Unaudited) pence	Year ended 31 December 2016 (Audited) pence
Basic	19	**8.3**	10.2	25.9
Diluted	19	**8.2**	10.1	25.5

The notes on pages 11 to 35 are an integral part of these financial statements.

Consolidated Statement of Financial Position

	Note	**30 June 2017 (Unaudited)**	30 June 2016 (Unaudited)	December 2016 (Audited)
		£m	£m	£m
Assets				
Cash and balances at central banks		**393.0**	353.5	429.9
Loans and advances to banks		**45.2**	26.8	24.1
Loans and advances to customers	8	**4,367.1**	3,783.6	4,050.4
Derivative financial assets	10	**5.5**	7.8	5.2
Property, plant and equipment		**45.0**	44.9	42.6
Intangible assets	11	**62.5**	57.3	59.9
Deferred tax assets		**19.4**	14.4	17.9
Other assets		**14.8**	12.7	16.6
Total assets		**4,952.5**	4,301.0	4,646.6
Liabilities				
Customer deposits		**3,814.7**	3,503.6	3,943.5
Due to banks		**538.0**	48.8	147.7
Provisions for liabilities and charges	12	**1.5**	2.0	1.3
Derivative financial liabilities	10	**7.7**	0.6	0.4
Current tax liabilities		**14.4**	-	14.2
Other liabilities		**42.5**	275.5	27.0
Subordinated debt	13	**75.3**	74.1	75.3
Total liabilities		**4,494.1**	3,904.6	4,209.4
Equity				
Share capital	14	**2.5**	2.5	2.5
Share premium account		**87.3**	87.3	87.3
Capital redemption reserve		**-**	183.1	183.1
Retained earnings		**368.6**	123.5	164.3
Total equity		**458.4**	396.4	437.2
Total equity and liabilities		**4,952.5**	4,301.0	4,646.6

The notes on pages 11 to 35 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24 November 2017 and were signed on its behalf by:

Steve Pateman
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 07240248

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance as at 1 January 2016	2.5	87.3	183.1	94.7	367.6
Total comprehensive income for the period:					
Profit for the period	-	-	-	25.6	25.6
Total comprehensive income for the period	-	-	-	25.6	25.6
Share-based payments	-	-	-	3.2	3.2
Balance as at 30 June 2016 (Unaudited)	2.5	87.3	183.1	123.5	396.4
Balance as at 1 July 2016	2.5	87.3	183.1	123.5	396.4
Total comprehensive income for the period:					
Profit for the period	-	-	-	39.2	39.2
Total comprehensive income for the period	-	-	-	39.2	39.2
Share-based payments	-	-	-	1.6	1.6
Balance as at 31 December 2016 (Audited)	2.5	87.3	183.1	164.3	437.2
Balance as at 1 January 2017	2.5	87.3	183.1	164.3	437.2
Total comprehensive income for the period:					
Profit for the period	-	-	-	20.8	20.8
Total comprehensive income for the period	-	-	-	20.8	20.8
Cancellation of capital redemption reserve*	-	-	(183.1)	183.1	-
Share-based payments	-	-	-	7.2	7.2
Dividend	-	-	-	(6.8)	(6.8)
Balance as at 30 June 2017 (Unaudited)	2.5	87.3	-	368.6	458.4

* During 2017, the Company cancelled the capital redemption reserve as part of a court-confirmed reduction of capital. The entire balance of the capital redemption reserve of £183.1m was cancelled and credited to the Company's retained earnings, substantially all of which is distributable.

The notes on pages 11 to 35 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	6 Months ended 30 June 2017 (Unaudited) £m	6 Months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Cash flows from operating activities:			
Profit for the period before taxation	**32.7**	35.2	88.2
Adjustments for non-cash items	**28.8**	29.7	51.8
Cash flows from operating activities before changes in operating assets and liabilities	**61.5**	64.9	140.0
Increase/decrease in operating assets and liabilities:			
Increase in mandatory balances with central banks	**(0.1)**	(0.9)	(1.7)
Increase in loans and advances to customers	**(326.9)**	(477.5)	(755.6)
Increase in operating lease assets	**(8.4)**	(4.5)	(7.5)
(Increase)/decrease in derivatives	**(0.6)**	(4.4)	(2.0)
Decrease / (increase)in other assets	**1.8**	(4.8)	(8.7)
(Decrease)/increase in customer deposits	**(128.8)**	317.2	757.1
Increase in provisions for liabilities and charges	**0.2**	1.1	0.4
Increase / (decrease) in other liabilities	**23.1**	(59.2)	(296.8)
Net change in operating assets and liabilities	**(439.7)**	(233.0)	(314.8)
Tax paid	**(13.2)**	(7.5)	(20.4)
Net cash flow used by operating activities	**(391.4)**	(175.6)	(195.2)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(0.4)**	-	(0.2)
Sale of property, plant and equipment	**-**	0.2	0.2
Purchase of intangible assets	**(4.4)**	(3.8)	(7.9)
Net cash used by investing activities	**(4.8)**	(3.6)	(7.9)
Cash flows from financing activities			
Increase in amounts due to banks	**390.3**	8.9	107.8
Dividend paid	**(6.8)**	-	-
Payment of subordinated debt interest	**(3.2)**	(3.1)	(5.2)
Net cash generated from financing activities	**380.3**	5.8	102.6
Net (decrease)/increase in cash and cash equivalents	**(15.9)**	(173.4)	(100.5)
Cash and cash equivalents at 1 January	**450.0**	550.5	550.5
Cash and cash equivalents at 30 June and 31 December	**434.1**	377.1	450.0

The notes on pages 11 to 35 are an integral part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation

1.1 Reporting entity

Shawbrook Group plc is domiciled in the UK. The Company's registered office is at Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE. The consolidated Financial Statements of Shawbrook Group plc, for the period ending 30 June 2017, comprise the results of the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

1.2 Basis of accounting

The condensed interim report has been prepared on a historical cost basis and in accordance with IAS 34 "Interim Financial Reporting". This condensed set of Financial Statements has been prepared by applying the accounting policies and presentation that were applied in the preparation of the Group's published Financial Statements for the year ended 31 December 2016.

The comparative figures for the period ended 30 June 2016 have not been audited and are not the Group's statutory accounts for that period. The statutory accounts for the year ended 31 December 2016 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

This condensed set of Financial Statements is drawn up in accordance with the Companies Act 2006.

1.3 Functional and presentation currency

The consolidated Financial Statements are presented in Pounds Sterling, which is the Company and its subsidiaries' functional currency.

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

1.4 Going concern

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for at least 12 months following the period end. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections suggest that it will be able to operate at adequate levels of both liquidity and capital for at least 12 months following the period end, including in a range of stressed scenarios, assuming the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for at least 12 months following the period end, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

1.5 Basis of consolidation

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

Basis of preparation (continued)

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. Accounting policies are applied consistently across the Group.

1.6 Critical accounting estimates and judgements

The preparation of these condensed Financial Statements in conformity with IFRS adopted in the EU requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may ultimately differ from those estimates.

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

Area of significant judgement or estimate	**Note reference**
Effective interest rate	3
Impairment of loans and advances	9
Impairment assessment of goodwill	11

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

1.7 Other reserves

Capital redemption reserve

This is a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares. The provisions relating to the capital redemption reserve are set out in section 733 of the Companies Act 2006. During 2017, the Company cancelled the capital redemption reserve as part of a court-confirmed reduction of capital. The entire balance of the capital redemption reserve was cancelled and credited to the Company's retained earnings. Following the cancellation of the capital redemption reserve, the Company created additional distributable reserves of £183.1m.

1.8 IFRS 9

Effective from 1 January 2018, the standard replaces IAS 39, addressing recognition, basis of valuation, income recognition methods, impairment and hedging for financial instruments.

While areas such as the amortised cost basis of valuation and the effective interest rate method of recognition are largely unchanged in the new standard, the new basis of accounting for impairments is likely to have a significant impact on the Group due to the requirement for earlier recognition of losses.

Basis of preparation (continued)

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI"), loan receivables, certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in the credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be Stage 1; financial assets, which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets, which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in Stage 3.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering the increase in ECL.

The assessment of credit risk and estimated ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of the impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12 month ECL and the population for financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Delivery of the requisite IFRS 9 processes, systems and policies has been a priority throughout the first half of 2017. The IFRS 9 programme, which is jointly sponsored by the CFO and CRO and managed by a dedicated management committee, is currently within its Testing and Implementation phase. Further work is ongoing, specifically on the effect of the inclusion of multiple forward looking macro-economic scenarios and the Group has participated in the PRA's quantitative surveys, however the uplift in provision anticipated as at 31 December 2017 is not material in the context of the Group's regulatory capital resources and absent volatility in the forward looking macro-economic scenarios, the increase in Loan Loss Provisions should be limited to less than 50%. In addition, on day 1 the collective impairment calculated under IAS 39 will no longer count towards Tier 2 capital. The Group has elected to utilise the transitional arrangements afforded by the regulatory authorities.

The Group has also decided to exercise the accounting policy choice to continue applying hedge accounting under IAS 39, which is permitted under IFRS 9. The Group assessed the impact on the classification and measurement with reference to the 'solely payments of principal and interest' and concluded that the current classification under IAS 39 will remain materially unchanged. The Group is on track to successfully deliver the changes required to adopt IFRS 9 on 1 January 2018 and will not early adopt any elements of the Standard.

2. Operating segments

The Group has four reportable operating segments as described below which are based on the Group's three lending divisions plus a central segment which represents the savings business, central functions and shared central costs.

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

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

- Business Finance: Provides the following propositions:
    - the Regional Business Centres provide finance solutions to established businesses in UK SME markets, principally through a direct product offering. The centres primarily provide leasing finance for business-critical assets operated by established UK SME businesses, and working capital solutions in the form of invoice discounting and asset-based lending;
    - the Structured Finance proposition includes lending to SME finance companies with security against receivables within their portfolios. The Structured Finance product set provides wholesale finance and block discounting to smaller UK financial institutions to allow customers to release cash and grow their businesses. Loans are secured against receivables within the customers' portfolios, with the security given by the ultimate borrower taking the form of a hard asset or a pool of loan receivables;
    - the Specialist Asset Finance proposition include leasing and hire purchase finance solutions in specialist UK SME market segments such as marine and aviation, healthcare and taxis. We distribute the majority of our Specialist Sectors products directly through our experienced and expert teams. Leveraging the significant lending and sector experience of our sales teams, we build and develop relationships with our clients by providing specialist insight and advice; and
    - Shawbrook International Limited ("SIL") provides finance solutions to consumers and SMEs in Jersey, with a growing range of products designed to address a breadth of needs in the Jersey market.

- Consumer Lending: Provides unsecured loans for a variety of purposes, primarily focused on home improvements, holiday ownership, personal loans and certain retailers.

- Central: As well as common costs, Central includes the Group's Treasury function and Consumer Savings business which are responsible for raising finance on behalf of the lending segments.

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

The underlying basis is the basis on which financial information is presented to the Chief Operating Decision Maker, which excludes certain items included in the statutory results. The table below includes a reconciliation between the statutory results and the underlying basis

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

Operating segments (continued)

Six months ended 30 June 2017 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Central £m	Total £m
Interest and similar income	**84.1**	**35.3**	**23.6**	**3.0**	**146.0**
Interest expense and similar charges	**(19.7)**	**(6.8)**	**(3.9)**	**(6.5)**	**(36.9)**
Net interest income	**64.4**	**28.5**	**19.7**	**(3.5)**	**109.1**
Operating lease rentals	**-**	**6.3**	**-**	**-**	**6.3**
Other income	**-**	**0.1**	**-**	**-**	**0.1**
Depreciation on operating leases	**-**	**(5.3)**	**-**	**-**	**(5.3)**
Net income from operating leases	**-**	**1.1**	**-**	**-**	**1.1**
Fee and commission income	**0.2**	**8.1**	**0.3**	**-**	**8.6**
Fee and commission expense	**(1.6)**	**(0.4)**	**(1.8)**	**(0.2)**	**(4.0)**
Net fee and commission income	**(1.4)**	**7.7**	**(1.5)**	**(0.2)**	**4.6**
Fair value gains/(losses) on financial instruments	**-**	**-**	**-**	**-**	**-**
Net operating income	**63.0**	**37.3**	**18.2**	**(3.7)**	**114.8**
Administrative expenses	**(8.2)**	**(7.9)**	**(5.8)**	**(49.8)**	**(71.7)**
Impairment losses on loans and advances to customers	**(1.4)**	**(3.6)**	**(5.2)**	**-**	**(10.2)**
Provision for liabilities and charges	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Statutory profit before tax	**53.4**	**25.8**	**7.2**	**(53.7)**	**32.7**
Underlying adjustments	**-**	**-**	**-**	**18.6**	**18.6**
Profit before tax on an underlying basis	**53.4**	**25.8**	**7.2**	**(35.1)**	**51.3**
Income tax charge on an underlying basis					**(13.4)**
Profit after tax on an underlying basis					**37.9**
Assets	**2,781.3**	**1,105.9**	**521.1**	**544.2**	**4,952.5**
Liabilities	**-**	**-**	**-**	**(4,494.1)**	**(4,494.1)**
Net assets/(liabilities)	**2,781.3**	**1,105.9**	**521.1**	**(3,949.9)**	**458.4**

Operating segments (continued)

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

Operating segments (continued)

Year ended 31 December 2016 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Central £m	Total £m
Interest and similar income	154.9	75.1	44.7	5.5	280.2
Interest expense and similar charges	(52.8)	(21.2)	(9.9)	0.8	(83.1)
Net interest income	102.1	53.9	34.8	6.3	197.1
Operating lease rentals	-	13.5	-	-	13.5
Other income	-	0.1	-	-	0.1
Depreciation on operating leases	-	(11.3)	-	-	(11.3)
Net income from operating leases	-	2.3	-	-	2.3
Fee and commission income	0.4	14.7	0.3	-	15.4
Fee and commission expense	(2.7)	(0.6)	(2.0)	(0.4)	(5.7)
Net fee and commission income	(2.3)	14.1	(1.7)	(0.4)	9.7
Fair value gains/(losses) on financial instruments	-	-	-	0.5	0.5
Net operating income	99.8	70.3	33.1	6.4	209.6
Administrative expenses	(15.2)	(16.3)	(10.8)	(53.7)	(96.0)
Impairment losses on loans and advances to customers	(2.1)	(14.5)	(7.7)	-	(24.3)
Provision for liabilities and charges	-	-	-	(1.1)	(1.1)
Statutory profit before tax	82.5	39.5	14.6	(48.4)	88.2
Underlying adjustments	-	-	-	3.2	3.2
Profit before tax on an underlying basis	82.5	39.5	14.6	(45.2)	91.4
Income tax charge on an underlying basis					(24.3)
Profit after tax on an underlying basis					67.1
Assets	2,519.1	1,104.4	465.0	558.1	4,646.6
Liabilities	-	-	-	(4,209.4)	(4,209.4)
Net assets/(liabilities)	2,519.1	1,104.4	465.0	(3,651.3)	437.2

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

3. Interest and similar income

	6 Months ended 30 June 2017 (Unaudited) £m	6 Months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Interest paid by customers	**143.2**	130.8	274.8
Interest received from derivative financial instruments	**2.3**	1.8	3.7
Interest on loans and advances to banks	**0.5**	1.0	1.7
Interest and similar income	**146.0**	133.6	280.2

The interest income recognised during the period on loans impaired was £1.3m (30 June 2016: £1.0m and 31 December 2016: £2.1m). The Group did not capitalise any interest during the period.

The key assumptions applied by management in the EIR methodology remain materially unchanged from the 2016 Annual Report and Accounts. The key assumptions are behavioural life of the assets and the quantum of future early settlement fee income. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying value of loans which must be recognised in the Statement of Profit and Loss. Management has limited historical experience of customer behaviours due to the relative immaturity of the portfolios and therefore models expected behaviour based on market trends and experience. The actual behaviour of the portfolios are compared to the modelled behaviour on a quarterly basis and the modelled behaviours are adjusted if the modelled behaviour materially deviates from actual behaviour, with adjustments recognised in the Statement of Profit and Loss.

4. Interest expense and similar charges

	6 Months ended 30 June 2017 (Unaudited) £m	6 Months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Interest paid to depositors	**33.0**	35.0	73.0
Interest on amounts due to banks	**0.7**	0.6	1.2
Interest on subordinated debt	**3.2**	3.2	6.5
Other interest	**-**	2.0	2.4
Interest expense and similar charges	**36.9**	40.8	83.1

5. Administrative expenses

	6 Months ended 30 June 2017 (Unaudited)	6 Months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£m	£m	£m
Staff costs	**36.0**	28.2	54.1
Depreciation (excluding operating lease assets)	**1.1**	1.2	2.2
Amortisation of intangible assets	**1.8**	1.2	2.7
Operating lease rentals - land and buildings	**0.8**	0.7	1.8
Other administrative expenses *	**32.0**	17.4	35.2
Administrative expenses	**71.7**	48.7	96.0

* Other administrative expenses include £12.7m (2016: £nil) of legal and consultancy costs relating to the Marlin Bidco Limited takeover of the Company.

6. Employee share-based payment transactions

The employee share-based payment charge comprises:

	6 Months ended 30 June 2017 (Unaudited)	6 Months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£m	£m	£m
SAYE	**0.8**	0.1	0.1
Performance share plan - 2015 plan	**1.4**	0.8	1.6
Performance share plan - 2016 plan	**1.7**	2.3	3.1
Performance share plan - 2017 plan	**2.4**	-	-
Deferred share bonus plan - 2017 plan	**0.9**	-	-
At 30 June and 31 December	**7.2**	3.2	4.8

Details of the 2015 and 2016 plans can be found in the Note 10 of the 2016 Annual Report and Accounts.

Accelerated vesting of the schemes

Subsequent to the acquisition of the Group by Marlin Bidco Limited, there was an issue of 2,586,879 £0.01 shares and the vesting of all of the Share Option Schemes was accelerated. The acceleration of the share options is recognised as if the service and the non-market performance conditions of all schemes were met. Subsequent to vesting all shares were repurchased by Marlin Bidco Limited at the offer price of £3.40. The total acceleration charge of £5.8m is included in the total charge of £7.2m.

Prior to the acquisition, the following schemes were granted (and subsequently accelerated):

Performance Share Plan (PSP) – 2017 plan

During 2017, 1,547,183 share awards were granted to a set of individuals. These individuals are entitled to acquire ordinary shares in Shawbrook Group plc, subject to performance conditions. The scheme was deemed to be an equity-settled scheme. This amount included a number of options related to new hires as discussed below.

Employee share-based payments (continued)

The performance conditions for the 2017 tranche related to the growth in total shareholder return (TSR) over the vesting period for 20% of each award, the customer and employee performance condition (CEP) at the date of vesting for 20% of each award, the risk performance over the vesting period for 20% of each award and the annual compound growth in the earnings per share (EPS) over the vesting period for 40% of each award. The outcome of the performance conditions, as assessed by the Remuneration Committee, will determine the vesting outcome of the awards and the shares available for exercise.

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

The fair value of the shares in the EPS, CEP and risk performance elements of the awards was based on the share price at the date of the grant. The fair value of these awards was £2.94.

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

Assumptions	
Share price at grant date	**£3.14**
Volatility	**35% p.a.**
Dividend yield	**2.5% p.a.**
Risk-free rate of return	**0.16% p.a.**

The fair value of the shares in the TSR award is £1.89.

Deferred share bonus plan – 2017 plan:

During March 2017, 301,615 awards were granted to selected members of senior management of which the Share price at grant date was 316.7p. Each award was structured as a nil cost option with no performance conditions attached, although the individuals were subject to continued employment until March 2020.

7. Taxation

Recognised in the Income Statement	**6 Months ended 30 June 2017 (Unaudited) £m**	6 Months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Current tax:			
Current year	**13.4**	9.9	27.4
Adjustment in respect of prior years	**-**	-	(0.2)
Total current tax	**13.4**	9.9	27.2
Deferred tax:			
Origination and reversal of temporary difference	**(1.5)**	(0.3)	(4.0)
Adjustment in respect of prior years	**-**	-	0.2
Total deferred tax	**(1.5)**	(0.3)	(3.8)
Total tax charge	**11.9**	9.6	23.4

Taxation (continued)

A reduction in the main corporation tax rate to 17% from 1 April 2020 was announced in the 2016 Budget and substantively enacted in the Finance Act of 2016. This will reduce the Company's future current tax charge accordingly.

In accordance with IAS 34 'Interim Financial Reporting', the Company's tax charge for the half-year to 30 June 2017 is based on the best estimate of the weighted-average annual corporation tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual corporation tax rate, but are recognised in the relevant period.

8. Loans and advances to customers

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

	2017 (Unaudited) £m	2016 (Unaudited) £m	31 December 2016 (Audited) £m
Loan receivables	**3,986.0**	3,359.1	3,639.5
Finance lease receivables	**81.9**	103.5	93.5
Instalment credit receivables	**301.0**	321.0	316.9
Fair value adjustments for hedged risk	**(1.8)**	-	0.4
Total loans and advances to customers	**4,367.1**	3,783.6	4,050.4

9. Impairment provisions on loans and advances to customers

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

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
At the start of the period	**24.4**	13.5	13.5
Charge for impairment losses	**10.2**	14.3	24.3
Provisions utilised	**(6.7)**	(2.8)	(13.4)
At the end of the period	**27.9**	25.0	24.4
Analysis of impairment type:			
Loan receivables	**15.7**	12.4	13.6
Finance lease receivables	**9.6**	10.0	8.5
Instalment credit receivables	**2.6**	2.6	2.3
At the end of the period	**27.9**	25.0	24.4

10. Derivative financial instruments

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

	Notional Amount £m	Fair Value £m
Interest rate swaps:		
Assets		
At 30 June 2016 (Unaudited)	535.0	7.8
At 31 December 2016 (Audited)	485.0	5.2
At 30 June 2017 (Unaudited)	485.0	5.5
Liabilities		
At 30 June 2016 (Unaudited)	20.0	(0.6)
At 31 December 2016 (Audited)	39.0	(0.4)
At 30 June 2017 (Unaudited)	599.0	(7.7)
Foreign exchange swaps:		
Liabilities		
At 30 June 2016 (Unaudited)	-	-
At 31 December 2016 (Audited)	16.4	-
At 30 June 2017 (Unaudited)	29.8	0.2

The Group's property loan portfolio includes loans whose interest rate terms are referenced to the 3 month LIBOR index, but with a minimum reference rate of 0.75%. On 29 March 2017 the Group sold loan floors with a nominal value of £500m into the wholesale market in order to hedge the Group's interest rate position against possible increases in the reference rate.

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

	6 months ended 30 June 2017 (Unaudited) £m	6 months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Fair value gain/(Loss) on financial instruments	**1.6**	4.3	2.0
Fair value gain/(loss) on hedged risk	**(1.6)**	(4.4)	(1.5)
Fair value gain/(loss) on financial instruments	**-**	(0.1)	0.5

11. Intangible assets

	Goodwill £m	Computer software £m	Total £m
At 1 January 2016	44.8	9.9	54.7
Additions	-	3.8	3.8
Amortised in the period	-	(1.2)	(1.2)
At 30 June 2016 (Unaudited)	44.8	12.5	57.3
Additions	-	4.1	4.1
Amortised in the period	-	(1.5)	(1.5)
At 31 December 2016 (Audited)	44.8	15.1	59.9
Additions	**-**	**4.4**	**4.4**
Amortised in the period	**-**	**(1.8)**	**(1.8)**
At 30 June 2017 (Unaudited)	**44.8**	**17.7**	**62.5**

Impairment testing for CGUs containing goodwill

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

	30 June 2017 (Unaudited) **£m**	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
Property Finance	**9.0**	**9.0**	9.0
Business Finance	**34.7**	**34.7**	34.7
Consumer Lending	**1.1**	**1.1**	1.1
At 30 June and 31 December	**44.8**	**44.8**	44.8

The recoverable amounts of the CGUs have been calculated based on their value in use (VIU), determined by discounting the cash flows expected to be generated from the continuing use of the CGUs. No impairment losses were recognised in 2017 (2016: £nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values.

The CGUs have been identified at what management believe to be smallest group of assets that generate cash inflows from continuing use and that are largely independent of the cash inflows of other groups.

Management performed a review for any indicators of impairment and no indicators of impairment have been identified at the date of reporting.

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

The dividend discount model (DDM) is used to calculate the recoverable amount of future cash flows. The DDM discounts future cash flows (post-tax profits) generated by the CGUs, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGUs loan books through higher regulatory capital requirements. Forecasted post-tax profits were based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. The key assumptions described above may change as economic and market conditions change.

12. Provisions for liabilities and charges

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
At 1 January	**1.3**	0.9	0.9
Provisions utilised	**-**	-	(0.7)
Provisions made during the period	**0.2**	1.1	1.1
At 30 June and 31 December	**1.5**	2.0	1.3

Financial Services Compensation Scheme

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

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with on-going management expenses, via annual management levies on members, including the Group, over this period.

The Group’s FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2016/17. This amount was calculated on the basis of the Group’s current share of protected deposits taking into account the FSCS’s estimate of total management expense levies for the scheme year.

13. Subordinated debt

Subordinated debt liability:
In 2015, the Group issued £75m fixed rate reset callable subordinated notes due 2025 with an initial semi-annual coupon of 8.5%, which was listed for trading on the London Stock Exchange on 28 October 2015. Fees of £1m were incurred on issuance. On the same date, the subordinated debt dated 31 October 2013 was cancelled and repaid.

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
At 1 January	**75.3**	74.0	74.0
Interest expense	**3.2**	3.2	6.5
Repayment of interest	**(3.2)**	(3.1)	(5.2)
At 30 June and 31 December	**75.3**	74.1	75.3

14. Share capital

Ordinary shares of £0.01 each: issued and fully paid

	30 June 2017 No.	30 June 2016 No.	31 December 2016 No.
Ordinary £0.01 shares	**250,500,000**	250,500,000	250,500,000

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

15. Financial instruments

The Group determines fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities;

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 liabilities that are not based on observable market data (unobservable inputs).

Financial instruments (continued)

Fair value hierarchy

The table below analyses the Group's financial instruments measured at amortised cost into a fair value hierarchy:

	30 June 2017 (Unaudited)			30 June 2016 (Unaudited)			31 December 2016 (Audited)		
	Level 3	**Level 2**	**Level 1**	Level 3	Level 2	Level 1	Level 3	Level 2	Level 1
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Financial assets									
Cash and balances at central banks	**-**	**-**	**393.0**	-	-	353.5	-	-	429.9
Loans and advances to banks	**-**	**45.2**	**-**	-	26.8	-	-	24.1	-
Loans and advances to customers	**4,367.1**	**-**	**-**	3,783.6	-	-	4,050.4	-	-
Financial liabilities					-				
Customer deposits	**-**	**3,814.7**	**-**	-	3,503.6	-	-	3,943.5	-
Amounts due to banks	**-**	**538.0**	**-**	-	48.8	-	-	147.7	-
Subordinated debt	**-**	**75.3**	**-**	-	74.1	-	-	75.3	-

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

	30 June 2017 (Unaudited)			30 June 2016 (Unaudited)			31 December 2016 (Audited)		
	Level 3	**Level 2**	**Level 1**	Level 3	Level 2	Level 1	Level 3	Level 2	Level 1
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Financial assets									
Derivative financial instruments	**-**	**5.5**	**-**		7.8	-	-	5.2	-
Financial liabilities									
Derivative financial instruments	**-**	**(7.7)**	**-**		(0.6)	-	-	(0.4)	-

Financial instruments (continued)

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

	Loans and receivables	Other liabilities at amortised cost	Total carrying amount	Fair value
	£m	£m	£m	£m
At 30 June 2017 (Unaudited)				
Cash and balances at central banks	**393.0**	**-**	**393.0**	**393.0**
Loans and advances to banks	**45.2**	**-**	**45.2**	**45.2**
Loans and advances to customers	**4,367.1**	**-**	**4,367.1**	**4,577.3**
	4,805.3	**-**	**4,805.3**	**5,015.5**
Customer deposits	**-**	**3,814.7**	**3,814.7**	**3,819.0**
Due to banks	**-**	**538.0**	**538.0**	**538.0**
Subordinated debt	**-**	**75.3**	**75.3**	**78.8**
	-	**4,428.0**	**4,428.0**	**4,435.8**
At 30 June 2016 (Unaudited)				
Cash and balances at central banks	353.5	-	353.5	353.5
Loans and advances to banks	26.8	-	26.8	26.8
Loans and advances to customers	3,783.6	-	3,783.6	3,845.4
	4,163.9	-	4,163.9	4,225.7
Customer deposits	-	3,503.6	3,503.6	3,510.0
Due to banks	-	48.8	48.8	48.8
Subordinated debt	-	74.1	74.1	74.1
	-	3,626.5	3,626.5	3,632.9
At 31 December 2016 (Audited)				
Cash and balances at central banks	429.9	-	429.9	429.9
Loans and advances to banks	24.1	-	24.1	24.1
Loans and advances to customers	4,050.4	-	4,050.4	4,100.5
	4,504.4	-	4,504.4	4,554.5
Customer deposits	-	3,943.5	3,943.5	3,963.8
Due to banks	-	147.7	147.7	147.7
Subordinated debt	-	75.3	75.3	76.0
	-	4,166.5	4,166.5	4,187.5

16. Risk management

The main areas of risk that the business is exposed to are:

- Credit risk:
  - Customer risk
  - Treasury risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Operational risk; and
- Conduct risk.

Details of the risks to which the business is exposed are set out in Note 30 of the 2016 Annual Report.

Customer risk

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

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

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

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

Details of the forbearance arrangements in place are set out in the tables below:

Forbearance as at 30 June 2017 (Unaudited)	Number	Capital balances £m	Provisions £m	Coverage %
Property Finance	237	16.8	0.7	4.2%
Consumer Lending	596	3.8	1.8	47.4%
Business Finance	361	30.1	4.7	15.6%
Total	**1,194**	**50.7**	**7.2**	**14.2%**

Risk management (continued)

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

Forbearance as at 31 December 2016 (Audited)	Number	Capital balances £m	Provisions £m	Coverage %
Property Finance	191	13.6	0.7	5.1%
Consumer Lending	273	1.8	0.6	33.3%
Business Finance	237	30.1	3.3	11.0%
Total	701	45.5	4.6	10.1%

There were six property repossessions during the period (year to 31 December 2016: six). The total carrying value of these assets was £1.0m.

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

Type of impairment assessment	**Description**
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred.
Collective impairment	Impairment allowances are calculated for each portfolio on a collective basis, given the homogenous nature of the assets in the portfolio.
Risk categorisation	**Description**
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Past due but not impaired	Loans past due but not impaired consist predominantly of Loans in Property Finance and Business Finance that are past due and individually assessed as not being impaired. This definition also includes Unsecured loans in the Consumer division that are past due but not more than 90 days.
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment and where the carrying amount of the loan exceeds the expected recoverable amount. This definition also includes unsecured loans in the Consumer division that are more than 90 days in arrears and carry identified impairment.

Risk management (continued)

30 June 2017 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Neither past due nor impaired	**2,712.8**	**1,043.1**	**517.2**	**4,273.1**
Past due but not impaired:				
Up to 30 days	**12.9**	**7.2**	**1.1**	**21.2**
30-60 days	**28.0**	**2.1**	**4.6**	**34.7**
60-90 days	**5.7**	**0.5**	**1.8**	**8.0**
Over 90 days	**16.3**	**6.8**	-	**23.1**
Total past due but not impaired	**62.9**	**16.6**	**7.5**	**87.0**
Impaired Assets	**14.0**	**18.9**	**3.8**	**36.7**
	2,789.7	**1,078.6**	**528.5**	**4,396.8**
Fair value adjustment on hedged risk	**(2.0)**	**-**	**0.2**	**(1.8)**
Less: allowances for impairment losses	**(6.4)**	**(13.9)**	**(7.6)**	**(27.9)**
Net loan receivables	**2,781.3**	**1,064.7**	**521.1**	**4,367.1**

30 June 2016 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Neither past due nor impaired	2,276.2	1,034.2	412.2	3,722.6
Past due but not impaired:				
Up to 30 days	5.2	4.9	0.6	10.7
30-60 days	19.7	4.4	2.6	26.7
60-90 days	5.1	0.9	1.0	7.0
Over 90 days	8.1	5.4	-	13.5
Total past due but not impaired	38.1	15.6	4.2	57.9
Impaired Assets	3.9	19.3	4.9	28.1
	2,318.2	1,069.1	421.3	3,808.6
Fair value adjustment on hedged risk	-	-	-	-
Less: allowances for impairment losses	(3.9)	(13.9)	(7.2)	(25.0)
Net loan receivables	2,314.3	1,055.2	414.1	3,783.6

Risk management (continued)

31 December 2016 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Neither past due nor impaired	2,443.9	1,036.9	460.8	3,941.6
Past due but not impaired:				
Up to 30 days	13.8	12.0	0.7	26.5
30-60 days	33.6	4.3	4.3	42.2
60-90 days	10.7	4.2	1.6	16.5
Over 90 days	12.2	7.2	-	19.4
Total past due but not impaired	70.3	27.7	6.6	104.6
Impaired Assets	10.1	14.1	4.0	28.2
	2,524.3	1,078.7	471.4	4,074.4
Fair value adjustment on hedged risk	-	-	0.4	0.4
Less: allowances for impairment losses	(5.2)	(12.4)	(6.8)	(24.4)
Net loan receivables	2,519.1	1,066.3	465.0	4,050.4

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

30 June 2017 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	**87.8**	**76.7**	**22.4**	**186.9**
East Midlands	**85.9**	**27.5**	**41.0**	**154.4**
Greater London	**1,038.0**	**204.8**	**54.1**	**1,296.9**
Guernsey/Jersey/Isle of Man	**6.8**	**4.8**	**0.1**	**11.7**
North East	**41.1**	**17.0**	**25.7**	**83.8**
North West	**242.2**	**153.2**	**63.0**	**458.4**
Northern Ireland	**13.5**	**3.5**	**1.1**	**18.1**
Scotland	**165.7**	**78.6**	**67.7**	**312.0**
South East	**585.9**	**206.2**	**90.4**	**882.5**
South West	**208.8**	**94.8**	**41.2**	**344.8**
Wales	**65.7**	**81.7**	**20.3**	**167.7**
West Midlands	**111.5**	**64.3**	**53.2**	**229.0**
Yorkshire/Humberside	**136.8**	**65.5**	**48.3**	**250.6**
	2,789.7	**1,078.6**	**528.5**	**4,396.8**

Risk management (continued)

30 June 2016 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	82.0	77.9	21.2	181.1
East Midlands	60.6	32.1	34.0	126.7
Greater London	872.3	195.1	40.2	1,107.6
Guernsey/Jersey/Isle of Man	3.5	0.5	0.1	4.1
North East	30.2	14.4	22.7	67.3
North West	211.8	147.8	47.6	407.2
Northern Ireland	2.3	1.9	0.6	4.8
Scotland	115.1	115.8	56.0	286.9
South East	505.3	204.2	70.4	779.9
South West	177.2	94.4	32.9	304.5
Wales	52.4	69.8	15.9	138.1
West Midlands	97.1	64.4	43.8	205.3
Yorkshire/Humberside	108.4	50.8	35.9	195.1
	2,318.2	1,069.1	421.3	3,808.6

31 December 2016 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	84.3	71.1	21.1	176.5
East Midlands	75.2	26.9	36.8	138.9
Greater London	911.6	214.7	48.3	1,174.6
Guernsey/Jersey/Isle of Man	6.1	0.6	0.1	6.8
North East	38.5	11.3	23.7	73.5
North West	221.0	151.8	55.9	428.7
Northern Ireland	10.6	3.7	0.8	15.1
Scotland	157.5	96.9	60.9	315.3
South East	539.8	191.6	80.1	811.5
South West	198.3	107.5	36.8	342.6
Wales	57.1	70.1	17.9	145.1
West Midlands	104.1	64.1	47.2	215.4
Yorkshire/Humberside	120.2	68.4	41.8	230.4
	2,524.3	1,078.7	471.4	4,074.4

Risk management (continued)

Capital risk management

The following shows the regulatory resources managed by the Group:

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
Share capital	**2.5**	2.5	2.5
Retained earnings	**368.6**	123.5	164.3
Share premium account	**87.3**	87.3	87.3
Capital redemption reserve	**-**	183.1	183.1
Intangible assets	**(62.5)**	(57.3)	(59.9)
Foreseeable dividend	**-**	-	(6.7)
Common equity tier 1 capital	**395.9**	339.1	370.6
Subordinated debt	**75.3**	74.1	75.3
Collective provision	**9.8**	5.7	8.7
Tier 2 capital	**85.1**	79.8	84.0
Total regulatory capital	**481.0**	418.9	454.6

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

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
Regulatory capital	**481.0**	418.9	454.6
Subordinated debt	**(75.3)**	(74.1)	(75.3)
Collective impairment allowance	**(9.8)**	(5.7)	(8.7)
Intangible assets	**62.5**	57.3	59.9
Foreseeable dividend	**-**	-	6.7
Total equity	**458.4**	396.4	437.2

As required by Article 26(2) of the Capital Requirements Regulation, a deduction has been made for foreseeable dividends from the profits.

17. Related party transactions

There were no changes to the nature of the related party transactions during the period 30 June 2017 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 31 December 2016 can be found in the 2016 annual report.

18. Contingent liabilities

Part of the Group's business is regulated by the Consumer Credit Act (CCA), which contains very detailed and highly technical requirements. The Group continues to commission external reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA and other consumer regulations is likely, there is a risk that the eventual outcome may differ.

The Group's Consumer Lending division is exposed to risk under Section 75 CCA, in relation to any misrepresentations or breaches of conduct by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Group. While the Group would have recourse to the supplier in the event of such liability, if the supplier becomes insolvent then that recourse would have limited value. Since 1 January 2016 a number of suppliers have become insolvent and therefore the Group may have an increased exposure to customer complaints in relation to such suppliers. The Group's exposure to Section 75 CCA risk also extends to solar panels and in 2017, the Group's Consumer Lending division has seen an increase in the number of related customer complaints which relate either to the quality of the panels or to representations allegedly made by suppliers as to the expected financial performance of the panels. The Group investigates each complaint on its individual merits and as at 30 June 2017 does not regard any exposure to be material.

19. Earnings per share

IAS 33 requires that if the number of ordinary shares increases as a result of a capitalisation, bonus issue or share split then the calculation of basic and diluted earnings per share (EPS) shall be adjusted retrospectively. The tables below are based on the number of shares in issue:

	6 months ended 30 June 2017 (Unaudited)	6 months ended 30 June 2016 (Unaudited)	**Year ended 31 December 2016 (Audited)**
	Pence	Pence	**Pence**
Earnings per share			
Basic	**8.3**	10.2	25.9
Diluted	**8.2**	10.1	25.5

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

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

There are no discontinued operations during the period (2016: £nil).

Basic EPS computations are based on profit attributable to ordinary equity holders of the parent of £20.8m (June 2016: £25.6m and December 2016: £64.8m) and weighted number of ordinary shares of 250.5m (June 2016: 250.5m and December 2016: 250.5m)

Diluted EPS computations are based on profit attributable to ordinary equity holders of the parent of £20.8m (June 2016: £25.6m and December 2016: £64.8m) and weighted number of ordinary shares of 255.0m (June 2016: 254.4m and December 2016: 253.7m).

20. Post balance sheet event

On 5 June 2017, Marlin Bidco, a company jointly owned by funds managed and/or advised by Pollen Street Capital Limited ("Pollen Street Capital") and funds advised by BC Partners LLP ("BC Partners"), announced an increased and final cash offer pursuant to which Marlin Bidco would offer to acquire the entire issued and to be issued ordinary share capital of Shawbrook not already directly or indirectly owned by it or its concert parties (the "Final Offer").

The Final Offer was declared unconditional in all respects on 7 July 2017.

On 24 August 2017, the UK Listing Authority cancelled the listing of Shawbrook's shares on the premium listing segment of the Official List and the London Stock Exchange cancelled the trading of Shawbrook's shares on the London Stock Exchange's main market for listed securities.

On 31 August 2017, Marlin Bidco completed the exercise its rights pursuant to the provisions of Chapter 3 of Part 28 of the Companies Act to acquire compulsorily the remaining Shawbrook shares in respect of which the Final Offer had not been accepted on the same terms as the Final Offer.

Subsequent to the acquisition, 2,586,879 Ordinary £0.01 shares were in issue and all Share Option Schemes were accelerated (Refer Note 6). Legal and consultancy costs relating to the transaction amounted to £12.7m (Refer Note 5).