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Shawbrook Group plc

Interim Results for the six months ended 30 June 2016

27 July 2016

Important disclaimer

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

CEO Statement

Shawbrook Group plc

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

Commenting on the results, CEO Steve Pateman said:

"I am delighted to report that the business achieved a strong first half performance with underlying Profit Before Tax ("PBT") up 14% from the same period in 2015 to £38.0 million (statutory PBT: £35.2 million). This strong result is after taking into account the additional impairment charge announced on 28 June 2016 and absent this charge, underlying PBT in H1 2016 would have been 41% higher when compared to H1 2015 (78% on a statutory PBT basis). This performance was driven by continued growth in the book to £3.8bn as we progressively increased originations by 22% to £993 million, with strong growth across all three divisions.

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

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

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

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

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

[a] We present all underlying items, against which we manage the business, equally and prominently alongside the relevant statutory measure. Please refer to the Underlying income statements for a detailed reconciliation of statutory results to underlying results.

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

Highlights

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

Progressively increase originations

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

- Consumer lending originations for the period amounted to £135 million, an increase of 50% from the same period in 2015. The Consumer lending division is in the process of developing a direct to consumer proposition for the personal loans products which is expected to go live in H2 2016.

Maintain excellent credit quality

- The Group announced an additional impairment charge of £9 million due to irregularities on a number of loans in one office of our Asset Finance Business that did not meet the business's strict lending criteria. This isolated control breach was identified by the Group's upgraded risk management framework, systems and controls. Management believes that the £9 million provision allocated to this isolated incident is sufficiently prudent to cover the risk of realised loss on the impacted lease portfolio of £14.7 million.

- Excluding this isolated breach, the Group continues to experience a low cost of risk[8] (H1 2016: 34bps excluding/80bps including the breach), reflective of a benign economic environment and the continued focus on originating high quality business against prudent credit principles that have remained largely unchanged since the inception of the Bank.

- The current benign environment is reflected in the Group's non-performing loan ratios. As at 30 June 2016, 1.2% of the Group's loans and advances to customers were 3+ months in arrears or impaired, with a coverage ratio of 55%. At 31 December 2015, these metrics were 0.8% and 54% respectively.

Maintain conservative foundations

- The Group maintains a strong capital position, with a CET1[20] ratio of 12.4% (31 December 2015: 14.4%) and a total capital ratio[21] of 15.5% (31 December 2015: 18.0%). Including unverified profits results in a CET1[20] ratio of 13.0% and a total capital ratio[21] of 16.1%. This allows the Group to continue to execute its strategy of constantly delivering growth in customer loans. The prudently positioned leverage ratio was stable at 30 June 2016 at 7.6% (8.0% when including unverified profits, 31 December 2015: 7.9%).

- The liquidity ratio[18] of 18.5% at 30 June 2016 compares with 25.8% at 31 December 2015 as the Group held excess liquidity at 31 December 2015 in relation to the purchase of the Property portfolio.

- The Group continued to benefit from the FLS, with total drawings amounting to £307 million at 30 June 2016 (£270 million T-Bills available net of repo agreements) with further capacity to utilise.

- The Group remains predominantly retail deposit funded, with a loan to deposit ratio[17] of 108% (31 December 2015: 104%).

Outlook

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

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

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

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

ENQUIRIES

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

Webcast

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

Group Key Performance Indicators

	H1 2016 [1]	H1 2015 [1]	FY 2015
Assets			
Average principal employed (£m)[2]	3,583.5	2,551.2	2,712.8
Loans and advances to customers (£m)[3]	3,823.3	2,716.7	3,361.0
Originations (£m)	992.7	811.9	1,684.9
Profitability (on an underlying basis)[b]			
Gross asset yield (%)[4]	7.9	8.5	8.5
Liability yield (%)[5]	(2.2)	(2.4)	(2.3)
Net interest margin (%)[6]	5.6	6.1	6.2
Management expenses ratio (%)[7]	(2.7)	(3.1)	(3.0)
Cost of risk (%)[8]	(0.80)	(0.36)	(0.24)
Return on lending assets before tax (%)[9]	2.1	2.6	3.0
Return on lending assets after tax (%)[10]	1.5	2.1	2.4
12-month rolling return on tangible equity (%)[11]	21.2	20.4	22.7
Cost/income ratio (%)[12]	47.9	51.0	48.3
Earnings per share (pence)	10.2	8.0	24.1
Asset quality			
Ratio of impaired loans (%)[13]	0.8	0.7	0.5
Ratio of past due over 90 days and impaired loans (%)[14]	1.2	0.9	0.8
Forbearance cases[15]	800	720	559
Forbearance principal employed (£m)[16]	29.2	12.3	19.0
Balance sheet			
Loan-to-deposit ratio (%)[17]	108.0	102.0	104.2
Liquidity			
Liquidity ratio (%)[18]	18.5	17.9	25.8
Ratio of liquidity buffer eligible assets to liquidity balances (%)[19]	95.9	94.5	96.2
Capital and leverage (including unverified profits)			
CET1 ratio (%)[20]	13.0	15.2	14.4
Total capital ratio (%)[21]	16.1	17.2	18.0
Leverage ratio (%)[22]	8.0	9.2	7.9
Employees - Full time equivalents (period average)	556	489	514

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

Underlying income statements

	H1 2016 Adjustments				
	Statutory accounts basis	IPO transaction costs[23]	IFRS 2 charge[24]	Corporate activity costs[25]	Underlying results
	(£m)				
Interest income and similar income	133.6	-	-	-	133.6
Interest expense and similar charges	(40.8)	-	-	1.0	(39.8)
Net interest income	**92.8**	**-**	**-**	**1.0**	**93.8**
Operating lease rentals	6.9	-	-	-	6.9
Other income	0.1	-	-	-	0.1
Depreciation on operating leases	(5.8)	-	-	-	(5.8)
Net income from operating leases	**1.2**	**-**	**-**	**-**	**1.2**
Fees and commission income	7.0	-	-	-	7.0
Fees and commission expense	(1.6)	-	-	-	(1.6)
Net fee and commission income	**5.4**	**-**	**-**	**-**	**5.4**
Fair value losses on financial instruments	(0.1)	-	-	-	(0.1)
Net operating income	**99.3**	**-**	**-**	**1.0**	**100.3**
Administrative expenses	(48.7)	-	1.8	-	(46.9)
Impairment losses on financial assets	(14.3)	-	-	-	(14.3)
Provisions for liabilities and charges	(1.1)	-	-	-	(1.1)
Profit before taxation	**35.2**	**-**	**1.8**	**1.0**	**38.0**
Income tax charge[26]	(9.6)	-	(0.5)	(0.3)	(10.4)
Profit for the period, attributable to owners	**25.6**	**-**	**1.3**	**0.7**	**27.6**

Underlying income statements (continued)

	H1 2015				
		Adjustments			
	Statutory accounts basis	IPO transaction costs[23]	IFRS 2 charge[24]	Corporate activity costs[25]	Underlying results
	(£m)				
Interest income and similar income	100.3	-	-	-	100.3
Interest expense and similar charges	(30.4)	-	-	-	(30.4)
Net interest income	**69.9**	**-**	**-**	**-**	**69.9**
Operating lease rentals	7.6	-	-	-	7.6
Other income	0.9	-	-	-	0.9
Depreciation on operating leases	(6.2)	-	-	-	(6.2)
Net income from operating leases	**2.3**	**-**	**-**	**-**	**2.3**
Fees and commission income	6.1	-	-	-	6.1
Fees and commission expense	(1.2)	-	-	-	(1.2)
Net fee and commission income	**4.9**	**-**	**-**	**-**	**4.9**
Fair value losses on financial instruments	-	-	-	-	-
Net operating income	**77.1**	**-**	**-**	**-**	**77.1**
Administrative expenses	(46.2)	8.2	-	0.3	(37.7)
Impairment losses on financial assets	(4.6)	-	-	-	(4.6)
Provisions for liabilities and charges	(1.6)	-	-	-	(1.6)
Profit before taxation	**24.7**	**8.2**	**-**	**0.3**	**33.2**
Income tax charge[26]	(5.9)	(0.8)	-	(0.1)	(6.8)
Profit for the period, attributable to owners	**18.8**	**7.4**	**-**	**0.2**	**26.4**

Underlying income statements (continued)

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

Notes to the KPIs and Underlying adjustments

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

1. All KPI ratios have been annualised for H1 2016 and H1 2015 based on the 182/181 calendar days between January and June.
2. Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of impairment provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
3. Loans and advances to customers is presented net of impairment provision and includes operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
4. Asset yield is calculated as the sum of underlying interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments, divided by average principal employed.
5. Liability yield is calculated as underlying interest expense and similar charges divided by average principal employed.
6. Net interest margin is calculated as underlying net operating income divided by average principal employed.
7. Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.
8. Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.
9. Return on lending assets before tax is calculated as underlying profit before taxation divided by average principal employed.
10. Return on lending assets after tax is calculated as underlying profit for the year attributable to owners divided by average principal employed.
11. Return on tangible equity is a twelve month rolling KPI, calculated as underlying profit attributable to owners for the 12 months ending on the reporting period in question divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period, divided by two. Adjustments have been made to tangible equity to include net IPO proceeds of £82m across all pre-IPO periods for comparability purposes.
12. The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.
13. The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.
14. The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers and dividing the sum by total gross loans and advances to customers.
15. Forbearance cases is the number of cases for which the Group has granted concession to the borrower due to reasons relating to actual or apparent financial stress and relates to accounts subject to forbearance measures at reporting date.
16. Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.
17. The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.
18. The liquidity ratio is calculated as the liquidity reserve divided by customer deposits. The liquidity reserve comprises cash and balances at central banks (excluding mandatory balances held with central banks), loans and advances to banks, off balance sheet T-Bills but excludes additional available liquidity from pre-positioned assets.
19. The ratio of liquidity buffer eligible assets to liquidity balances is calculated as the proportion of liquidity balances that are eligible for use in the liquidity buffer to total liquidity balances.
20. The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets at the Group level. For the H1 2016 and H1 2015 ratios, half year retained earnings have been included. Unverified profits are excluded from the capital balances.
21. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets at the Group level. For the H1 2016 and H1 2015 ratios, half year retained earnings have been included.
22. The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets.
23. IPO costs include expenses incurred in 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement. A further £3.7m was recognised in equity
24. IFRS 2 charges recognised in relation to share based awards made to Steve Pateman upon joining the Group. This charge is a transfer from P&L to retained earnings.
25. H1 2016 corporate activity costs primarily relate to the interest expense incurred on the additional deposits raised ahead of the transfer of funds for the Property portfolio acquisition to be completed in July 2016. H1 2015 corporate activity costs include £0.3m of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. FY 2015 corporate activity costs include a final £0.6 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. In addition, costs incurred in relation to the acquisition of three asset portfolios (including the incremental costs of raising additional deposits to fund inorganic growth) have been excluded from the underlying results.
26. Income tax charge on underlying adjustments has been calculated at the implied corporation tax rate. Income tax charge on certain underlying adjustments has been assumed as £nil on the basis of being disallowable for tax purposes.
27. The impact of the DTA revaluation following the implementation of the 8% Corporation Tax surcharge for bank profits in excess of £25 million was a benefit of £3.2 million. Given the one-off nature of this benefit, we have sought to adjust for it in our underlying results.