SHAWBROOK BANK

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Results for the year ended 31 December 2016

7 March 2017

Shawbrook Group plc

Shawbrook Group plc ("Shawbrook" or "the Group"), the specialist lending and savings bank, today announces continued strong performance and reiterates confidence in its near and medium term outlook, supported by its disciplines on risk, returns and costs to create resilience, durability and sustainability.

Commenting on the results, CEO Steve Pateman said:

"2016 was a pivotal year for Shawbrook – we clearly articulated our 2020 vision at our inaugural Capital Markets Day in May 2016 and have continued to deliver against the strategic pillars we set out. We have achieved sustainable growth across all of our lending divisions and delivered strong risk adjusted returns. Notwithstanding the changes in the political environment and the subsequent uncertainty arising in the macroeconomic climate, we have continued to execute our plans through deep market knowledge, innovation and through close understanding and awareness of our customers' needs.

Shawbrook's journey since listing has been somewhat more challenging than anticipated due to the changes in the macroeconomic climate and outlook and the identification of the controls breach in the Business Finance Division announced on 28 June 2016[1]. However, Shawbrook today has a strengthened management team and sound foundations, making it well placed to take advantage of the opportunities that will continue to arise from the structural changes taking place in the UK banking market. Our disciplines on risk, returns, costs, liquidity and capital are clear and as we move forward, our guiding principles will be quality rather than quantity which, combined with practical banking and good sense, will create resilience, durability and sustainability."

Achieve strong risk adjusted returns[2]

- Robust financial performance aligned to our strategic pillars:
  - Net interest margin stability throughout 2016 at 5.6% (2015: 6.2%);
  - Further reductions in the cost to income ratio to 45.1% (excl. controls breach: 44.7%, 2015: 48.3%);
  - 14% increase in profit before tax to £91.4 million (29% increase excl. controls breach: £103.4 million, 2015: £80.1 million);
  - 26% increase in statutory profit before tax to £88.2 million (2015: £70.1 million); and
  - Statutory earnings per share of 25.9p and recommended dividend per share of 2.7p.
- Our specialist markets continue to offer strong risk-adjusted returns:
  - Return on tangible equity of 19.4% (excl. controls breach: 22.0%, 2015: 22.7%[3]); and
  - Statutory return on tangible equity of 18.8% (2015: 20.7%[3]).

Maintain excellent credit quality[2]

- Excluding the controls breach, cost of risk was 35bps (statutory: 64bps, 2015: 24bps).

1 See the Basis of preparation and the Risk management report in the Annual Report & Accounts for further details.
2 All references are to underlying results, unless otherwise stated. See the Basis of preparation in the Annual Report & Accounts for further details of underlying adjustments and statutory equivalents.
3 Opening tangible equity has been adjusted to include £82 million of net IPO proceeds.

- Continued investment in the development of the Risk Management Framework, our risk teams and the promotion of a strong risk culture throughout the Group, giving us confidence that we now have in place an effective platform to support the continued growth of the business.
- The non-performing loan (NPL) ratio[4] as at 31 December 2016 of 0.99% (1.17% including the controls breach, 31 December 2015: 0.65%) continues to reflect the benign economic environment with the increase largely attributable to slower transaction cycles in a number of prime property segments of the market, the time taken to optimise the recovery of assets in Business Finance and the maturity of the residential mortgage portfolio. Our credit appetite remains conservatively positioned with significant collateral against our watch list cases. Overall, our assessment of the impairment requirement against these cases results in a NPL provision coverage ratio of 51% at 31 December 2016.

Progressively increase originations

- Continuing demand in our carefully selected markets:
  - Organic originations growth of 14% to £1.9 billion (2015: £1.7 billion); and
  - Customer loans[5] grew 22% to £4.1 billion from £3.4 billion at 31 December 2015.
- Enhancement of product propositions across all divisions and delivery of a number of key initiatives including entry into the development finance market, the launch of Shawbrook International Limited, offering financing solutions in Jersey, and the agreement of strategic partnerships with a number of key affiliates.

Maintain conservative foundations

- We remain well capitalised with a period end Common Equity Tier 1 (CET1) ratio of 13.3%, total capital ratio of 16.4% and leverage ratio of 7.8% on an average risk weighting of 68%[6].
- We continue to fund our lending primarily with retail deposits and had a loan to deposit ratio of 102.7% as at 31 December 2016 (31 December 2015: 104.2%). At the end of the period, we utilised c.£120 million of the Term Funding Scheme (TFS) liquidity and we expect to further utilise the TFS going forward.
- The positive results in 2016 have enabled the Board to recommend a maiden final dividend of 2.7p per share, subject to shareholder approval at the Group's Annual General Meeting on 6 June 2017. This is equivalent to c.10% of post-tax profits for the year and in line with the guidance set out at the IPO. The Board continues to target an increase in the dividend payout ratio to 30% of 2017 post-tax profits subject to the continuing evolution of regulatory capital requirements, the rate at which the Group continues to grow, attractive investment opportunities that may arise and the optimal capital composition of the Group's balance sheet.

Enhance customer focus

- Once again, we have achieved exceptional levels of customer service, with a Charterhouse survey conducted in Q4 2016 revealing customer satisfaction of 88%. This is consistent with customer satisfaction levels in 2015 showing our continued focus on supporting and fulfilling the needs of our customers by providing speed and certainty of delivery, specialist and expert knowledge and fair and transparent offerings, all of which translate into exceptional customer service.
- Within our Property Finance division, we entered the development finance market to provide financing solutions to smaller housebuilders, thus helping to resolve the significant supply and demand imbalance in the UK property market.

4 Ratio of past due over 90 days and impaired loans.
5 Includes operating leases and net of impairment provisions.
6 Risk weighted assets of £2,778.6 million against Customer Loans of £4,088.5 million. Total balance sheet exposure for leverage ratio was £4,760.8 million at 31 December 2016.

- The introduction of the Regional Business Centres (RBCs) within our Business Finance Division has enabled us to reposition our offering to put the customer first. We can now offer a broad suite of SME financing solutions, along with our specialist and expert knowledge, from a number of locations around the UK. This has broadened our geographical footprint and increased our direct distribution channels. We expect to have seven fully operational RBCs by the end of 2017.

- In 2016, we successful entered into partnerships with Saga and RAC, to exclusively offer Consumer products directly to their customers, offering fair and transparent rates and treating our customers individually through our Personal Loans proposition. Throughout 2017, we will continue to build on our current strategic partnerships by developing our product offerings into adjacent markets.

Board and management

- Andrew Didham was appointed as an Independent Non-Executive Director on 1 February 2017, bringing a wealth of experience to the Board of Directors, particularly in the financial services sector.

- Dylan Minto was appointed Chief Financial Officer (CFO) and Executive Director on 6 February 2017 after a successful period as Interim CFO following the departure of Tom Wood in H1 2016.

- The leadership team has also been strengthened by the appointment of Angela Wakelin as Chief Operating Officer in November 2016.

Outlook

- We laid out our strategy and 2020 vision at our Capital Markets Day in May 2016 and, although there remains macroeconomic and regulatory uncertainty, the momentum we have seen in our results and the pipeline we continue to build for 2017 and beyond as we continue to invest in our platform gives confidence in our ability to continue to deliver strong and stable returns whilst we grow the business at a pace appropriate to market conditions as they unfold.

Possible Offer

On 3 March 2017, following share price movement, the Group announced that it was in discussions with Pollen Street Capital Limited (Pollen Street) and BC Partners LLP (BC Partners) (together the Consortium) regarding a possible offer to be made by a new company to be jointly owned by funds managed or advised by Pollen Street and BC Partners for the entire issued and to be issued share capital of Shawbrook Group plc (the Possible Offer). The announcement is available at http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/SHAW/13147364.html

As at the date of publication of the 2016 Annual Report & Accounts, the Board had issued a rejection of the Possible Offer.

ENQUIRIES

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An analyst presentation will be held at 09:00am on 7 March 2017 at Instinctif Partners, 65 Gresham Street, London EC2V 7NQ. The analyst presentation will also be available by webcast and teleconference at 09:00am. The access details are as follows:

To access the webcast please click on the following link http://webcast.instinctif.tv/795-1286-17321/en.

Annual Report & Accounts

Our full 2016 Annual Report & Accounts and Pillar III disclosure are available on our website at investors.shawbrook.co.uk.

Group Key Performance Indicators (unaudited)

	FY 2016	FY 2015
Assets		
Average principal employed (£m)[1]	3,769.3	2,712.8
Loans and advances to customers (£m) [2]	4,088.5	3,361.0
Originations (£m)	1,920.8	1,684.9
Profitability		
Gross asset yield (%)[3]	7.8	8.5
Liability yield (%)[4]	(2.2)	(2.3)
Net interest margin (%)[5]	5.6	6.2
Management expenses ratio (%)[6]	(2.5)	(3.0)
Cost of risk (%)[7]	(0.64)	(0.24)
Return on lending assets before tax (%)[8]	2.4	3.0
Return on lending assets after tax (%)[9]	1.8	2.4
Return on tangible equity (%)[10]	19.4	22.7
Cost to income ratio (%)[11]	45.1	48.3
Asset quality		
Ratio of impaired loans (%)[12]	0.69	0.41
Ratio of past due over 90 days and impaired loans (%)[13]	1.17	0.65
Forbearance cases[14]	701	559
Forbearance principal employed (£m)[15]	45.5	19.0
Balance sheet		
Loan-to-deposit ratio (%)[16]	102.7	104.2
Liquidity		
Liquidity ratio (%)[17]	16.8	25.8
Ratio of liquidity buffer eligible assets to liquidity balances (%)[18]	96.4	96.2
Capital and leverage		
CET1 ratio (%)[19]	13.3	14.4
Total capital ratio (%)[20]	16.4	18.0
Leverage ratio (%)[21]	7.8	7.6
Other		
Employees - Full time equivalents (period average)	569	514

Divisional Key Performance Indicators (unaudited)

Property Finance

	FY 2016	FY 2015
Assets		
Average principal employed (£m)[1]	2,304.7	1,592.0
Loans and advances to customers (£m) [2]	2,519.1	2,083.1
Originations (£m)	994.0	831.8

	FY 2016	FY 2015
Profitability		
Gross asset yield (%)[3]	6.6	7.2
Liability yield (%)[4]	(2.3)	(2.4)
Net interest margin (%)[5]	4.3	4.8
Management expenses ratio (%)[6]	(0.7)	(0.9)
Cost of risk (%)[7]	(0.09)	(0.06)
Return on lending assets before tax (%)[8]	3.6	3.9
Asset quality		
Ratio of impaired loans (%)[12]	0.40	0.24
Ratio of past due over 90 days and impaired loans (%)[13]	0.88	0.50
Forbearance cases[14]	191	184
Forbearance principal employed (£m)[15]	13.6	7.7

Business Finance

	FY 2016	FY 2015
Assets		
Average principal employed (£m)[1]	1,059.0	851.7
Loans and advances to customers (£m) [2]	1,104.4	944.5
Originations (£m)	636.1	626.3
Profitability		
Gross asset yield (%)[3]	8.6	9.8
Liability yield (%)[4]	(2.0)	(2.2)
Net interest margin (%)[5]	6.6	7.5
Management expenses ratio (%)[6]	(1.5)	(1.6)
Cost of risk (%)[7]	(1.37)	(0.45)
Return on lending assets before tax (%)[8]	3.7	5.5
Asset quality		
Ratio of impaired loans (%)[12]	1.31	0.68
Ratio of past due over 90 days and impaired loans (%)[13]	1.97	0.95
Forbearance cases[14]	237	126
Forbearance principal employed (£m)[15]	30.1	9.6

Consumer lending

	FY 2016	FY 2015
Assets		
Average principal employed (£m)[1]	405.6	269.1
Loans and advances to customers (£m) [2]	465.0	333.4
Originations (£m)	290.7	226.8
Profitability		
Gross asset yield (%)[3]	10.6	10.6
Liability yield (%)[4]	(2.4)	(2.6)
Net interest margin (%)[5]	8.2	8.1
Management expenses ratio (%)[6]	(2.7)	(3.0)
Cost of risk (%)[7]	(1.90)	(0.67)
Return on lending assets before tax (%)[8]	3.6	4.4

	FY 2016	FY 2015
Asset quality		
Ratio of impaired loans (%)[12]	0.85	0.71
Ratio of past due over 90 days and impaired loans (%)[13]	0.85	0.71
Forbearance cases[14]	273	249
Forbearance principal employed (£m)[15]	1.8	1.7

Underlying income statements

	FY 2016			
		Adjustments		
	Statutory accounts basis	Share based payments[22]	Corporate activity costs[23]	Underlying results
	(£m)			
Interest income and similar income	280.2	—	—	280.2
Interest expense and similar charges	(83.1)	—	1.0	(82.1)
Net interest income	**197.1**	—	**1.0**	**198.1**
Net income from operating leases	2.3	—	—	2.3
Net fee and commission income	9.7	—	—	9.7
Fair value gains on financial instruments	0.5	—	—	0.5
Net operating income	**209.6**	—	**1.0**	**210.6**
Administrative expenses	(96.0)	2.2	—	(93.8)
Impairment losses on financial assets	(24.3)	—	—	(24.3)
Provisions for liabilities and charges	(1.1)	—	—	(1.1)
Profit before taxation	**88.2**	**2.2**	**1.0**	**91.4**
Income tax charge [24]	(23.4)	(0.6)	(0.3)	(24.3)
Profit for the period, attributable to owners	**64.8**	**1.6**	**0.7**	**67.1**

	FY 2015				
		Adjustments			
	Statutory accounts basis	IPO transaction costs[25]	Corporate activity costs[23]	DTA revaluation[26]	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**
Net income from operating leases	3.8	—	—	—	3.8
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 [24]	(11.6)	(1.0)	(0.2)	(3.2)	(16.0)
Profit for the period, attributable to owners	**58.5**	**7.9**	**0.9**	**(3.2)**	**64.1**

About Shawbrook

Shawbrook is an independent specialist lending and savings bank serving UK SMEs and consumers with tailored products designed to address a selection of high growth sub-sectors of the overall lending industry. The Group's lending activities are primarily funded by a stable retail deposit book consisting of easy access and ISA accounts, variable rate long-dated notice accounts (mostly 95 - 120 days' notice) and fixed rate fixed term accounts (mostly one - five years). Shawbrook Bank Limited is an operating entity of Shawbrook Group plc. In April 2015, Shawbrook Group plc's shares (SHAW.L) listed on the Main Market of the London Stock Exchange. Shawbrook Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the Financial Services Compensation Scheme.

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. Forward looking statements in this announcement speak only as of the date of this announcement and are expressly qualified in their entirety by the cautionary statements contained or referred to in this disclaimer. No member of the Group, nor any of their respective directors, officers, employees, advisers or associates, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements contained in this announcement will actually occur. Each member of the Group and their respective directors, officers, employees, advisers and associates, disclaims any intention or obligation to update or revise any forward looking or other statements contained herein, except as required by applicable law.

A number of factors could cause the Group's actual results, plans, strategy and business to differ materially from those expressed or implied by these forward looking statements, including factors beyond the Group's control, including, but not limited to, any of the following: general economic conditions and business conditions in the UK and internationally, inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in interest rates (including low or negative rates), exchange rates, stock markets and currencies, the ability to access sufficient sources of capital, liquidity and funding when required, changes to the Group's credit ratings, the ability to derive cost savings, changing demographic developments, including mortality, and changing customer behaviour, including consumer spending, saving and borrowing habits, changes in customer preferences, changes to borrower or counterparty credit quality, instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the European Union (including the UK following its referendum vote to leave the European Union) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues, technological changes and cyber security risks, natural and other disasters, adverse weather and similar contingencies outside the Group's control, inadequate or failed internal or external processes, people and systems, terrorist acts and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events, changes in laws, regulations, taxation, accounting standards or practices, including as a result of the exit by the UK from the EU or a further possible referendum on Scottish independence, regulatory capital or liquidity requirements and similar contingencies outside the Group's control, the policies and actions of governmental or regulatory authorities in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation, the ability to attract and retain senior management and other employees, actions or omissions by the Group's directors, management or employees, the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets, market relating trends and developments, exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, changes in competition and pricing environments, the inability to hedge certain risks economically, the adequacy of loss reserves, the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies, and the success of the Group in managing the risks of the foregoing.

KPI definitions and underlying income statement adjustments:

Percentages and certain amounts included in this Press 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. 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. Three inorganic acquisitions were made during 2015, the last of which completed in December 2015. The average principal employed for 2015 does not include this acquisition as no underlying income or expenditure in the 2015 period related to this.
2. Loans and advances to customers and customer loans are presented net of impairment provision and includes operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
3. Gross 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 gains/(losses) on financial instruments, divided by average principal employed.
4. Liability yield is calculated as underlying interest expense and similar charges divided by average principal employed.
5. Net interest margin is calculated as underlying net operating income divided by average principal employed.
6. Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.
7. Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.
8. Return on lending assets before tax is calculated as underlying profit before taxation divided by average principal employed.
9. Return on lending assets after tax is calculated as underlying profit for the year attributable to owners divided by average principal employed.
10. Return on tangible equity is calculated as underlying profit for the year attributable to owners 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. The 2015 opening tangible equity position has been adjusted to include the £82m of IPO proceeds to enable like for like comparisons.
11. The cost to income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.
12. The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.
13. 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.
14. 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.
15. Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.
16. The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.
17. 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.
18. 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.
19. 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.
20. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets at the Group level.
21. The leverage ratio is calculated as common equity 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). We have previously reported leverage ratio as common equity tier 1 divided by tangible assets, however have aligned our calculation to the regulatory definition which appears in the Annual Report and Accounts and the Pillar 3 disclosure.
22. IFRS 2 charges amounting to £2.2 million recognised in relation to share-based awards to Steve Pateman, Chief Executive Officer, in 2016 which were fully satisfied by Special Opportunities Fund (Guernsey) LP. This charge is a transfer from the income statement to retained earnings and is the result of a one-off award for compensation against forfeited long-term incentives at a previous employer.

23. Corporate activity costs amounting to £1.0 million in 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 Shawbrook, thus resulting in Shawbrook paying to fund the portfolio twice. Future transactions would be expected to be structured differently, resulting in lower funding costs. Corporate activity costs of £1.1 million in 2015 include a final £0.6 million of costs 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.
24. 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.
25. IPO costs of £8.9 million recognised in the income statement in 2015 include expenses incurred in relation to the successful listing of Shawbrook Group plc on the LSE main market. A further £3.7 million was recognised in equity. In addition, the adjustment includes IFRS 2 charges in relation to share-based awards crystallising on listing.
26. The impact of the deferred tax asset (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.