Shawbrook Bank

Interim Financial Report

For the six month period ended 30 June 2018

Proudly different.

Contents

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 included in this interim financial report have been prepared in accordance with IAS 34 'Interim Financial Reporting'. Where appropriate, certain aspects of the 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.

To ensure equal prominence of both statutory and underlying results, the following table provides a comparison of the statutory results with the underlying results:

	Period ended 30 Jun 2018[1] (Unaudited) £m	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Statutory results			
Interest income, net fee and operating lease income	**171.2**	151.7	314.7
Interest expense and similar charges	**(40.4)**	(36.9)	(76.0)
Net operating income	**130.8**	114.8	238.7
Costs and provisions for liabilities and charges	**(63.6)**	(71.9)	(128.9)
Impairment losses on financial assets [2]	**(4.1)**	(10.2)	(23.3)
Total operating expense	**(67.7)**	(82.1)	(152.2)
Statutory profit before taxation	**63.1**	32.7	86.5
Income tax charge	**(16.4)**	(11.9)	(25.3)
Statutory profit after taxation attributable to owners	**46.7**	20.8	61.2
Reconciliation of statutory to underlying results:			
Statutory profit before taxation	**63.1**	32.7	86.5
Underlying adjustments			
Project Marlin costs	**-**	12.7	13.2
IFRS 2 charges	**-**	5.9	5.9
Corporate activity costs	**-**	-	0.4
Total underlying adjustments	**-**	18.6	19.5
Underlying profit before taxation	**63.1**	51.3	106.0
Income tax on an underlying basis[3]	**(16.4)**	(13.4)	(26.8)
Underlying profit after taxation attributable to owners	**46.7**	37.9	79.2

[1] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for further information.

[2] Impairment losses in the period ended 30 June 2018 reflect expected credit losses calculated in accordance with IFRS 9. Impairment losses in the period ended 30 June 2017 and year ended 31 December 2017 reflect impairment losses calculated in accordance with IAS 39. As such results are not directly comparable.

[3] The 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.

Basis of preparation (Continued)

There are no underlying adjustments for the period ended 30 June 2018. For details of underlying adjustments in 2017 refer to page 2 of the 2017 Annual Report and Accounts.

Group key performance indicators[1]

	Period ended 30 Jun 2018[2][3] (Unaudited)	Period ended 30 Jun 2017[3] (Unaudited)	Year ended 31 Dec 2017 (Audited - underlying)
Assets			
Average principal employed (£m)[1]	**5,060.9**	4,201.4	4,424.9
Loans and advances to customers (£m)[2]	**5,317.1**	4,408.3	4,880.4
Profitability (on an underlying basis)			
Gross asset yield (%)[3]	**6.8**	7.3	7.1
Liability yield (%)[4]	**(1.6)**	(1.8)	(1.7)
Net interest margin (%)[5]	**5.2**	5.5	5.4
Management expenses ratio (%)[6]	**(2.5)**	(2.6)	(2.5)
Cost of risk (%)[7]	**(0.16)**	(0.49)	(0.53)
Return on lending assets before tax (%)[8]	**2.5**	2.5	2.4
Return on lending assets after tax (%)[8]	**1.9**	1.8	1.8
Return on tangible equity (%)[9]	**19.5**	19.8	19.5
Cost to income ratio (%)[10]	**48.6**	46.4	45.9
Asset quality			
Ratio of past due over 90 days and impaired loans (%)[11]	**-**	1.4	1.2
Ratio of Stage 3 loans (%)[12]	**1.7**	-	-
Liquidity			
Liquidity ratio (%)[13]	**20.2**	14.0	20.1
Capital and leverage (including unverified profits)[4]			
CET1 ratio (%)[14]	**12.5**	12.8	12.9
Total Tier 1 capital ratio (%)[15]	**15.8**	12.8	16.6
Total capital ratio (%)[16]	**17.7**	15.6	19.1
Leverage ratio (%)[17]	**9.1**	7.8	9.4
Risk-weighted assets	**3,823.2**	3,083.0	3,361.7

[1] KPIs are calculated on an underlying basis. Refer to the notes on page 5 for definitions and calculations.

[2] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for further information.

[3] For the period ended 30 June 2018 and 30 June 2017 all KPI ratios have been annualised based on the 181 calendar days between January and June.

[4] For the purpose of KPI calculations, unverified profits included in statutory retained earnings of £46.7 million are included (30 June 2017: £nil; 31 December 2017: £nil). The additional tables on page 53-54 provide the equivalent metrics with unverified profits excluded.

Notes to the Group key performance indicators[1]

Certain financial measures disclosed on page 4 of this report do not have a standardised meaning prescribed by International Financial Reporting Standards (IFRS) and may therefore not be comparable to similar measures presented by other issuers. These measures are deemed to be 'alternative performance measures', definitions for which are set out below:

1. **Average principal employed** is calculated as the average of monthly closing loans and advances to customers, net of impairment losses, 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.

2. **Loans and advances to customers** is presented net of impairment losses 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 interest 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 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 expense ratio** is calculated as 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/after tax** is calculated as underlying profit before/after taxation divided by average principal employed.

9. **Return on tangible equity** is calculated as profit for the year attributable to owners (adjusted to deduct distributions to Additional Tier 1 securities) divided by average tangible equity. Average tangible equity is calculated as total equity less other equity instruments and intangible assets at the beginning of a period plus total equity less other equity instruments and intangible assets at the end of the period, divided by two.

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

11. 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.

12. The **ratio of Stage 3 loans** is calculated as Stage 3 loans divided by total gross loans and advances to customers.

13. 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.

14. The **Common Equity Tier 1 (CET1) ratio** is calculated as CET1 capital divided by risk-weighted assets at the Group level. For the H1 2018 and H1 2017 ratios, half year retained earnings have been included.

15. The **total Tier 1 capital ratio** is calculated as total Tier 1 capital divided by risk-weighted assets at the Group level. For the H1 2018 and H1 2017 ratios, half year retained earnings have been included

16. The **total capital ratio** is calculated as total regulatory capital divided by risk-weighted assets at the Group level. For the H1 2018 and H1 2017 ratios, half year retained earnings have been included.

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

[1] 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.

Business review

Shawbrook Group plc ("Shawbrook" or "the Group") today announces continued strong performance, for the six months to 30 June 2018.

Commenting on the results, Interim CEO Ian Cowie said:

"It has been another solid six months across our operational and financial performance as we delivered continued growth across the business producing an underlying Profit Before Tax (PBT) of £63.1 million[1]. New lending increased compared with the first half of last year as we continue to expand our customer base into new and adjacent markets.

These results reflect the strength of our business and allow us to view the future with confidence. I'm pleased with the balanced growth we have achieved across our diversified portfolio whilst maintaining our prudent underwriting approach.

Despite being challenged by increased competition in the market, we remain confident in our ability to remain on a growth trajectory underpinned by the optionality we have in deploying capital across a number of asset classes. A key focus in H1 2018 was strengthening the foundations of a number of our propositions which will allow us to deliver sustainable returns.

As our business continues to mature, the investments we have made to strengthen our operations and risk functions will allow us to continue to grow safely in the ever-changing regulatory landscape. In addition, we continue to invest in our people, technology and our service proposition, as well as simplifying our product ranges making it easier for our customers to do business with us.

These actions, combined with our continued focus on prudent lending, have led to a 21% year on year increase in loan book to £5.3 billion.

I am delighted to assume the role of Interim CEO and on behalf of the management team and the Board, I would like to take this opportunity to thank Steve Pateman for his contribution to the Bank and we wish him well for the future. I am extremely positive and confident about the future of our specialist bank. We are a diversified business that continues to focus on supporting the underserved. Building on our strong track record of delivery across our portfolio we continue to drive strong risk adjusted returns. Of course, there is still more to do – but I am confident the momentum that is building across the business will continue to deliver on our growth ambitions."

HY 2018 Highlights

The business achieved a solid first half performance with underlying profit before tax (PBT) up 23% from the same period in 2017 to £63.1 million[1]. This performance was driven by continued growth in our loan book by 21% to £5.3 billion, remaining well positioned for the full year.

Maintaining a consistent application of our business model, 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.

[1] includes £10.0 million of proceeds from our insurance claim in respect of the controls breach identified in the Business Finance division in 2016.

HY 2018 Highlights (continued)

Achieve strong risk-adjusted returns

- The Group delivered a solid performance in H1 2018, with underlying PBT increasing by 23% to £63.1 million (statutory PBT: £63.1 million) from H1 2017 of £51.3 million (H1 2017 statutory PBT: £32.7 million). During the period ended 30 June 2018, we received £10.0 million in relation to insurance claims made against the controls breach reported in our Business Finance division in 2016. In accordance with IOSCO and ESMA guidelines, this insurance recovery has not been adjusted for in the underlying results, in line with the treatment of the original impairments.
- The Group achieved an underlying net interest margin of 5.2% at H1 2018 (H1 2017: 5.5%), reflecting heightened competition in the Group's lending markets which remain highly liquid.

Maintain excellent credit quality

- The Group recognised a low cost of risk of 16bps on an underlying basis, net of the Group's £10.0 million of insurance recoveries (56bps excluding the insurance recovery). This impairment charge has been driven by the introduction of IFRS9 and our recent expansion into unsecured personal lending.
- Calculated under IFRS 9, the Group's Ratio of Stage 3 Loans (calculated as Stage 3 loans divided by the total gross loans and advances to customers) is 1.7% at 30 June 2018 (31 December 2017: 1.9%).

Progressively increase originations

- The Group's loan book reached £5.3 billion as at 30 June 2018, an 8.9% increase in the loan book from £4.9 billion at 31 December 2017.

Maintain conservative foundations[a]

- The Group continues to maintain a strong capital position, with a CET1 ratio of 12.5% (31 December 2017: 12.9%) and a total capital ratio of 17.7% (31 December 2017: 19.1%). The Group's prudently positioned leverage ratio was stable at 30 June 2018 at 9.1% (31 December 2017: 9.4%).
- The balance sheet remains highly liquid following the closure of the Term Funding Scheme (TFS) with a liquidity ratio of 20.2% at 30 June 2018 compared with 20.1% at 31 December 2017.
- The Group continues to utilise the Term Funding Scheme, with £875 million drawn down when the scheme terminated in February 2018.
- The Group continues to look to diversify its funding sources and is considering an inaugural securitisation.
- The Group remains predominantly retail deposit funded, with a loan to deposit ratio of 114.3% (31 December 2017: 110.7%).

Enhance customer focus

- The Group continues to take a customer led approach, remaining dedicated to identifying opportunities to enhance customer focus and drive efficiencies in underserved markets where there is a structural supply and demand imbalance. The innovative and tailored products offered by the Group are underpinned by a robust risk management, differentiating the Group and ensuring customer needs are met. In H1 2018, 96% of Shawbrook reviews on Feefo, an independent online sentiment site, gave the Group positive feedback.

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[a] Please note the capital ratios shown here include unverified profits (interim profits not yet verified by the PRA). Please refer to the additional information on page 53-54 for details of capital ratios excluding unverified profits.

Divisional review

Property Finance

Buy-to-let (BTL)
Delivering strong growth in originations in the first half of 2018, our Specialist Buy-to-let proposition remains a significant part of the Group's lending activity. The Group's organic growth is attributable to our ongoing commitment to customers as we continue to utilise our strong broker relationships to gain wider market distribution. Whilst the book continues to grow organically in this period, we have taken the opportunity to supplement our growth inorganically. During H1 2018 we have successfully migrated a BTL portfolio acquired in Q4 2017. In H1 2018 the Group invested in the purchase of two additional BTL books, strengthening the foundations of our BTL proposition going forward. We have appetite to take advantage of further inorganic opportunities that meet our strict risk adjusted return criteria.

Short Term Lending
Recognising the increased investor demand for short-term finance, in H1 2018, the Group made sweeping improvements to consolidate its short-term lending range. We restructured our short-term offering from nine to five products; ultimately creating a stream-lined proposition to support customers seeking to build value and yield on their portfolios.

Commercial Property
The Group's Commercial property division continues to grow and, in H1 2018 we successfully developed our specialist teams, recruiting a range of experienced lending and business development managers to work within the specialist lending sector and provide on-going support to the Group's customers and brokers.

Residential Property
Whilst remaining committed to serving the second charge mortgage market, in H1 2018 the Group extended its residential proposition into residential BTL through a partnership with The Mortgage Lender (TML). The deal will see the Group exclusively fund the forward flow of TML's Residential BTL originations. TML will use its product expertise to market, underwrite and service the mortgages under an agreed risk framework.

Outlook
Whilst our Property business must continue to build sustainably and ensure positive customer outcomes remain at the heart of the business, we will continue to invest in technology through our lending platforms to deliver improved loan execution, ensuring we remain leaders in our chosen markets.

Residential lending will continue to look to diversify its offerings and broaden its distribution, exploiting gaps in the specialist first charge market.

Business Finance

Regional Business Centres (RBCs)
In H1 2018, the Group continued to establish its regional footprint, formally launching the East Anglia and South East Regional Business Centre in West Malling. With teams now established in seven locations, the Group's ability to offer asset finance, working capital solutions and commercial mortgages individually or in combination is proving to be an attractive proposition for clients and advisers.

As the RBCs mature, the healthy pipeline of business will support the Group's regional growth aspirations.

Specialist Asset Finance
H1 2018 saw continued growth in the Group's Specialist Asset Finance products; with Marine, Aviation and Healthcare delivering strong performances and Technology establishing volumes. In H1 2018, the Group relaunched its Agricultural proposition completing a number of significant transactions and entering into the Renewables market, exploiting the natural synergies between the two.

Structured Finance
Throughout the first half of 2018, we have seen strong performance in our Block Discounting business. Our Wholesale business also continues to grow, successfully completing its first fund leverage transaction, after re-building our proposition and presence in the market.

Divisional review (continued)

In H1 2018, we have prepared for the launch of two new products that will grow our Structured Finance portfolio; Growth Capital to support fast growth businesses between fund raising rounds and Unitranche to offer a compelling solution within the leveraged buy-out market.

Development Finance
The Development Finance business continues to grow and is now benefitting from the roll-out of a national model, which will see the team expand and leverage the Group's RBC model. We continue to explore further opportunities for growth, working closely with the Commercial Property Division to connect our Short Term Lending, Development Finance and Term products into a consolidated proposition, which will further allow the Group to serve customer needs in this market going forward.

Shawbrook International
After opening the new Guernsey office during Q1 2018, we have also acquired, fitted-out and moved into new premises in Jersey, recruiting high calibre individuals into a number of new positions to ensure sustainable future growth for the business. The loan book growth was supported with the inorganic acquisition of a loan portfolio from Lombard RBS in December 2017, which has been successfully migrated to the Shawbrook International platform.

Outlook
With the Group's strategy firmly embedded and teams now in place, the focus for the second half of 2018 continues to be on the seamless execution of our plans. In addition to new products, a number of key enablers are expected to be executed over the coming months, including the roll-out of the Group's Sales Portal and the opening of our Redhill office, as we continue to invest in creating a robust, scalable and sustainable business.

Consumer Lending

Personal Loans
Delivering significant growth in originations year on year, the Group's Personal Loan proposition continues to be centred around transparency and fairness, emphasising our commitment to the delivery of customer-centric solutions. In Q2 2018, Consumer Lending launched the Shawbrook Transparency Charter, addressing the concerns and misunderstandings relating to lenders' use of Representative APR in advertising, highlighted in our research report in conjunction with the Centre for economics and business research (Cebr). Shawbrook's approach continues to challenge the conventional 'teaser rate' approach to advertising, in line with the Group's commitment to remain Honest, Open, Fair, Upfront and Clear.

Motor Finance
Following the inaugural launch of the Flexiloan product to the personal loans market in Q4 2017, in partnership with the RAC, Shawbrook is continuing to evolve the product to make it suitable to offer through carefully chosen marketplaces. As with the Personal Loans proposition, the Flexiloan has been developed with the customer's best interests in mind, creating an innovative solution which enables the customer to disaggregate the car purchase from the finance in a simple and transparent manner.

Point of Sale (POS)/ Partner Finance
The point of sale and partner finance markets continue to face a number of headwinds and whilst the uncertain economic climate has caused challenges for some of our partners, originations have remained stable year on year which is testament to Shawbrook's approach to creating long-standing partnerships.

Outlook
The markets in which we participate continue to evolve rapidly as a result of high levels of regulatory focus and exponential levels of innovation, particularly from digital disruptors. The launch of Open Banking in H1 2018 has the potential to create opportunities for those lenders outside of the large high street banks and the Consumer Lending division is working closely with its strategic partners and a number of innovators in this space to better understand these opportunities and deliver maximum customer value.

Divisional review (continued)

Central

Savings
The Group continues to generate the majority of its funding through retail deposits, primarily through its direct offering. The focus over the recent past has been on increasing the Group’s addressable market by broadening the product offering and attention has now been redirected to diversifying the distribution strategy. The Group has a number of strategic partnerships in the pipeline to pursue through H2 2018.

Group Outlook

The Group remains committed to its proven business model and although there remains some macroeconomic and regulatory uncertainty, the momentum we have seen in our results and the encouraging pipeline underpins our ability to continue to deliver stable returns whilst we grow the business at a pace appropriate to market conditions. Against this backdrop, we remain confident in our outlook for continued sustainable growth.

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 2018 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 2018 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.

KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL

7 August 2018

Consolidated statement of profit and loss and other comprehensive income

	Notes	**Period ended 30 Jun 2018[a] (Unaudited) £m**	Restated Period ended 30 Jun 2017[b] (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Interest and similar income	3	**169.3**	148.5	313.3
Interest expense and similar charges	4	**(40.4)**	(36.9)	(76.0)
Net interest income		**128.9**	111.6	237.3
Operating lease rentals		**4.9**	6.3	12.3
Other (expense)/income		**(0.4)**	0.1	-
Depreciation on operating leases		**(3.7)**	(5.3)	(10.6)
Net income from operating leases		**0.8**	1.1	1.7
Fee and commission income		**5.6**	6.1	12.3
Fee and commission expense		**(4.0)**	(4.0)	(12.8)
Net fee and commission income/(expense)		**1.6**	2.1	(0.5)
Fair value (losses)/gains on financial instruments	9	**(0.5)**	-	0.2
Net operating income		**130.8**	114.8	238.7
Administrative expenses	5	**(61.4)**	(71.7)	(126.8)
Impairment losses on financial assets[c]	8	**(4.1)**	(10.2)	(23.3)
Provisions for liabilities and charges	11	**(2.2)**	(0.2)	(2.1)
Total operating expense		**(67.7)**	(82.1)	(152.2)
Profit before taxation		**63.1**	32.7	86.5
Income tax charge	7	**(16.4)**	(11.9)	(25.3)
Profit after taxation, being total comprehensive income, attributable to owners		**46.7**	20.8	61.2

The notes on pages 17 to 52 are an integral part of these financial statements.

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for further information.

[b] In the period ended 30 June 2017, £2.5 million has been reclassified from fee and commission income to interest and similar income in order to accurately reflect the nature of the revenue. The reclassification has no effect on either the net operating income, the profit before tax or the net assets of the Group.

[c] Impairment losses in the period ended 30 June 2018 reflect expected credit losses calculated in accordance with IFRS 9. Impairment losses in the period ended 30 June 2017 and year ended 31 December 2017 reflect impairment losses calculated in accordance with IAS 39. As such results are not directly comparable.

Consolidated statement of financial position

	Notes	**30 Jun 2018[a] (Unaudited) £m**	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (Audited) £m
Assets				
Cash and balances at central banks		**895.2**	393.0	752.5
Loans and advances to banks		**47.6**	45.2	28.8
Loans and advances to customers	8	**5,283.4**	4,367.1	4,844.3
Derivative financial assets	9	**1.7**	5.5	1.8
Property, plant and equipment		**38.7**	45.0	39.6
Intangible assets	10	**66.4**	62.5	65.7
Deferred tax assets		**21.0**	19.4	15.7
Other assets		**23.8**	14.8	10.3
Total assets		**6,377.8**	4,952.5	5,758.7
Liabilities				
Customer deposits		**4,622.6**	3,814.7	4,376.2
Amounts due to banks		**974.3**	538.0	607.3
Provisions for liabilities and charges	11	**4.9**	1.5	2.8
Derivative financial liabilities	9	**4.8**	7.7	3.4
Current tax liabilities		**13.0**	14.4	7.7
Other liabilities		**32.9**	42.5	62.8
Subordinated debt liability	12	**75.4**	75.3	75.4
Total liabilities		**5,727.9**	4,494.1	5,135.6
Equity				
Share capital	13	**2.5**	2.5	2.5
Capital securities	14	**124.0**	-	124.0
Share premium account		**87.3**	87.3	87.3
Retained earnings		**436.1**	368.6	409.3
Total equity		**649.9**	458.4	623.1
Total equity and liabilities		**6,377.8**	4,952.5	5,758.7

The notes on pages 17 to 52 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 7 August 2018.

John Callender
Chairman
Registered number 07240248

Dylan Minto
Chief Financial Officer

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for full details of IFRS 9 adoption.

Consolidated statement of changes in equity

	Share capital £m	Capital securities £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
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
Transactions with owners recorded directly in equity						
Dividend paid	-	-	-	-	(6.8)	(6.8)
Total contributions by and distributions to owners	-	-	-	-	(6.8)	(6.8)
Cancellation of capital redemption reserve[a]	-	-	-	(183.1)	183.1	-
Share-based payments	-	-	-	-	7.2	7.2
As at 30 June 2017 (Unaudited)	2.5	-	87.3	-	368.6	458.4
Total comprehensive income for the period						
Profit for the period	-	-	-	-	40.4	40.4
Total comprehensive income for the period	-	-	-	-	40.4	40.4
Transactions with non-controlling entities						
Issue of capital securities (net of costs)	-	124.0	-	-	-	124.0
Total contributions by non-controlling entities	-	124.0	-	-	-	124.0
Share-based payments	-	-	-	-	0.3	0.3
As at 31 December 2017 (Audited)	2.5	124.0	87.3	-	409.3	623.1

Note: Consolidated statement of changes in equity continued on the following page.

[a] In June 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 £183.1 million.

Consolidated statement of changes in equity (continued)

	Share capital £m	Capital securities £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2018	**2.5**	**124.0**	**87.3**	**-**	**409.3**	**623.1**
Impact of adopting IFRS 9[a]	**-**	**-**	**-**	**-**	**(16.0)**	**(16.0)**
Restated balance as at 1 January 2018 under IFRS 9	**2.5**	**124.0**	**87.3**	**-**	**393.3**	**607.1**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**-**	**46.7**	**46.7**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**46.7**	**46.7**
Share-based payments	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**
Coupon paid on capital securities (net of tax)	**-**	**-**	**-**	**-**	**(3.6)**	**(3.6)**
As at 30 June 2018 (Unaudited)	**2.5**	**124.0**	**87.3**	**-**	**436.1**	**649.9**

The notes on pages 17 to 52 are an integral part of these financial statements.

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for full details of IFRS 9 adoption.

Consolidated statement of cash flows

	Period ended 30 Jun 2018 (Unaudited) £m	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Cash flows from operating activities			
Profit for the period before taxation	**63.1**	32.7	86.5
Adjustments for non-cash items	**14.9**	28.8	54.5
Cash flows from operating activities before changes in operating assets and liabilities	**78.0**	61.5	141.0
Increase/decrease in operating assets and liabilities			
Increase in mandatory balances with central banks	**(3.4)**	(0.1)	(0.3)
Increase in loans and advances to customers	**(464.8)**	(326.9)	(817.2)
Increase in operating lease assets	**(1.4)**	(8.4)	(8.6)
Decrease/(increase) in derivatives	**1.5**	(0.6)	6.4
(Increase)/decrease in other assets	**(13.5)**	1.8	6.3
Increase/(decrease) in customer deposits	**246.4**	(128.8)	432.7
Increase in provisions for liabilities and charges	**2.1**	0.2	1.5
(Decrease)/increase in other liabilities	**(29.9)**	23.1	35.8
Net change in operating assets and liabilities	**(263.0)**	(439.7)	(343.4)
Tax paid	**(9.5)**	(13.2)	(29.6)
Net cash flow used by operating activities	**(194.5)**	(391.4)	(232.0)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(2.6)**	(0.4)	(1.6)
Purchase of intangible assets	**(3.7)**	(4.4)	(9.8)
Net cash used by investing activities	**(6.3)**	(4.8)	(11.4)
Cash flows from financing activities			
Increase in amounts due to banks	**367.0**	390.3	459.6
Payment of subordinated debt interest	**(3.2)**	(3.2)	(6.4)
Net proceeds from the issue of capital securities	**-**	-	124.0
Interest paid to holders of capital securities	**(4.9)**	-	-
Dividends paid to Shareholders	**-**	(6.8)	(6.8)
Net cash generated from financing activities	**358.9**	380.3	570.4
Net increase/(decrease) in cash and cash equivalents	**158.1**	(15.9)	327.0
Cash and cash equivalents at start of period	**777.0**	450.0	450.0
Cash and cash equivalents at end of period	**935.1**	434.1	777.0

The notes on pages 17 to 52 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 ended 30 June 2018, 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

This condensed interim financial report is prepared on a historical cost basis and in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU. Note 1.7 details new and revised standards and interpretations adopted in the current period. In all other respects, the accounting policies and presentation are consistent with those applied in the 2017 Annual Report and Accounts. This report does not include all information and disclosures required in the annual financial statements and should be read in conjunction with the 2017 Annual Report and Accounts, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The comparative figures for the period ended 30 June 2017 have not been audited and are not the Group's statutory accounts for that period. The comparative figures for the year ended 31 December 2017 are the Group's statutory accounts and have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

This report is drawn up in accordance with the Companies Act 2006.

1.3. Functional and presentation currency

This condensed interim financial report is 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 statement of financial position date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the statement of profit and loss. Non-monetary items (which are assets and liabilities that 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

This condensed interim financial report is 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 date of approval of the interim financial report. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of 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 date of approval of the interim financial report, 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 date of approval of the interim financial report, 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. Basis of preparation (continued)

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.

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. Intercompany 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 the condensed interim financial report, in conformity with IFRSs adopted by the EU, requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on Management's best knowledge, actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are detailed below:

1.6.1. Effective interest rate (EIR) (See Note 3)

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method. The key assumptions applied by Management in the EIR methodology remain materially unchanged from the 2017 Annual Report and Accounts.

The key assumptions are the 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. The EIR behavioural models are 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.

1.6.2. Impairment assessment of goodwill (See Note 11)

The review of goodwill for impairment reflects Management's best estimate of future cash flows of the cash generating units (CGUs) and the rates used to discount these cash flows. Both these variables are subject to judgement and estimation uncertainty as follows:

- the future cash flows of the CGUs are sensitive to projected cash flows based on the forecasts and assumptions regarding the projected periods and the long-term pattern of sustainable cash flows thereafter;
- the rates used to discount future expected cash flows can have a significant effect on their valuations and are based on the price-to-book ratio method which incorporates inputs reflecting a number of variables.

Details of key assumptions made are described in Note 11.

1.6.3. Customer remediation and conduct issues (See Note 12)

Provisions have been made in respect of various potential customer claims and represent Management's best estimate of the likely costs. The provision is calculated using Management's estimate of complaints volumes, referral levels to the Financial Ombudsman Service, claim rates upheld internally and by the Financial Ombudsman Service, redress payments and complaint handling costs.

1. Basis of preparation (continued)

1.6. Critical accounting estimates and judgements (continued)

1.6.4. Expected credit losses on financial assets (See Note 1.7.1.2 and Note 8)
The measurement of expected credit losses (ECLs) prescribed by the new requirements of IFRS 9 requires a number of significant judgements. ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Specifically judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

The calculation of ECLs and the associated areas of judgements and estimates are detailed in Note 1.7.1.2.

1.7. Adoption of new and revised standards and interpretations
On 1 January 2018, a number of new and revised standards issued by the International Accounting Standards Board (IASB), and endorsed for use in the EU, came into effect. New and revised standards adopted by the Group in the period are outlined below:

1.7.1. IFRS 9 'Financial Instruments'
On 1 January 2018, the Group adopted the requirements of IFRS 9 and the amendments to IFRS 9 'Prepayment Features with Negative Compensation'. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The Group has elected to early adopt the amendments.

IFRS 9 introduces new requirements for the classification and measurement, impairment and hedge accounting of financial assets and liabilities. The new standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group has adjusted its opening 1 January 2018 retained earnings to reflect the application of the new requirements of IFRS 9. In accordance with the transition requirements, comparative periods are not restated. As such, the comparative periods in 2017 are reported under the requirements of IAS 39 and are not comparable to the information presented for 2018.

1.7.1.1. Classification and measurement

1.7.1.1.1. Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the IAS 39 categories of held to maturity, loans and receivables and available for sale.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.1. Classification and measurement (continued)
1.7.1.1.1. Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Initial measurement of financial assets is as follows:

- **Financial assets at FVTPL:** Initially measured at fair value
- **All other financial assets:** Initially measured at fair value plus transaction costs that are directly attributable to its acquisition.

Subsequent measurement of financial assets is as follows:

- **Financial assets at FVTPL:** Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit and loss.
- **Financial assets at amortised cost:** Subsequently measured at amortised cost using the effective interest rate method. Amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss. Any gain or loss on derecognition is also recognised in the statement of profit and loss.
- **Debt investments at FVOCI:** Subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss. Other net gains and losses are recognised in the statement of other comprehensive income. On derecognition, gains and losses accumulated in the statement of comprehensive income are reclassified to the statement of profit and loss.
- **Equity investments at FVOCI:** Subsequently measured at fair value. Dividends are recognised as income in the statement of profit and loss, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case they are recorded in the statement of other comprehensive income. Other net gains and losses are recognised in the statement of other comprehensive income and are never reclassified to the statement of profit and loss. Equity instruments at FVOCI are not subject to an impairment assessment.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.1. Classification and measurement (continued)

1.7.1.1.2. Impact of adopting IFRS 9 on the classification and measurement of financial assets

- **Business model assessment:** The Group assessed the objective of the business model in which financial assets are held at a portfolio level and concluded that, for all portfolios reviewed, Management's strategy focusses on earning contractual interest revenue from the portfolios, rather than holding the portfolios for trading. For portfolios that have been sold in the past, Management concluded that the sale of the portfolios were for the purposes of managing credit risk.
- **SPPI assessment:** For the purposes of assessing whether contractual cash flows are SPPI, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The Group considered the contractual terms at instrument level and concluded that the contractual cash flows of the financial assets were SPPI.

Based on the conclusions from the business model and SPPI assessments, there were no changes in the classification and measurement of financial assets. The Group continues to classify all financial assets as measured at amortised cost, with the exception of derivatives which are mandatorily at FVTPL. This is summarised in the tables in Note 1.7.1.1.5.

1.7.1.1.3. Financial liabilities

The classification of financial liabilities under IFRS 9 largely retains the requirements prescribed in IAS 39, with the exception of the presentation of changes in fair value due to own credit risk under other comprehensive income for liabilities designated at FVTPL.

1.7.1.1.4. Impact of adopting IFRS 9 on the classification and measurement of financial liabilities

There were no changes in the classification and measurement of financial liabilities. The Group continues to classify all financial liabilities as measured at amortised cost, with the exception of derivatives which are mandatorily at FVTPL. This is summarised in the tables in Note 1.7.1.1.5.

1.7.1.1.5. Changes to governance and risk management

The Group governed the implementation of IFRS 9 through a steering committee that represented Finance, Risk and Information Technology. Subsequent to the implementation of IFRS 9, all governance and risk management processes were adapted to ensure adequate governance and control exist over the IFRS 9 ECL model.

The main change to the governance framework is the implementation of the Model Management Group. This group comprises risk and finance subject matter experts. The purpose of the group is to continuously review and challenge the inputs to the IFRS 9 ECL models, to review and challenge the outputs of the models and to recommend model calibrations where needed.

The Group and Divisional impairment committees were adapted to ensure compliance with the new IFRS 9 target operating model, and various layers of review were implemented to ensure appropriate review at divisional level.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.1. Classification and measurement (continued)

1.7.1.1.6. Transition disclosures
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

	Notes	Original classification under IAS 39	**New classification under IFRS 9**	Original carrying amount under IAS 39 as at 31 Dec 2017 (Audited) £m	**New carrying amount under IFRS 9 as at 1 Jan 2018 (Unaudited) £m**
Financial assets					
Cash and balances at central banks		Loans and receivables	**Amortised cost**	752.5	**752.5**
Loans and advances to banks		Loans and receivables	**Amortised cost**	28.8	**28.8**
Loans and advances to customers	8	Loans and receivables	**Amortised cost**	4,844.3	**4,822.7**
Derivative financial assets	9	FVTPL	**Mandatorily at FVTPL**	1.8	**1.8**
Total financial assets				5,627.4	**5,605.8**
Financial liabilities					
Customer deposits		Amortised cost	**Amortised cost**	4,376.2	**4,376.2**
Amounts due to banks		Amortised cost	**Amortised cost**	607.3	**607.3**
Derivative financial liabilities	9	FVTPL	**Mandatorily at FVTPL**	3.4	**3.4**
Subordinated debt liability	13	Amortised cost	**Amortised cost**	75.4	**75.4**
Total financial liabilities				5,062.3	**5,062.3**

There were no reclassifications as a result of the transition to IFRS 9. Going forward it is expected that reclassifications will be very rare, occurring only when there is a change in the business model for managing financial assets.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.1. Classification and measurement (continued)
1.7.1.1.5. Transition disclosures (continued)

The following table sets out the impact of adopting IFRS 9 on the statement of financial position carrying amounts and retained earnings as at 1 January 2018. Only balances impacted by the transition to IFRS 9 are included in the table; all other balances are unchanged.

	IAS 39 carrying amount as at 31 Dec 2017 (Audited) £m	**Reclassifi -cation £m**	**Remeasu- rement £m**	**IFRS 9 carrying amount as at 1 Jan 2018 (Unaudited) £m**	**Retained profits impact as at 1 Jan 2018 £m**
Assets					
Loans and advances to customers					
Opening balance	4,844.3	**-**	**-**	**4,844.3**	**-**
Remeasurements:					
Expected credit loss	-	**-**	**(21.6)**	**(21.6)**	**(21.6)**
Total loans and advances to customers	4,844.3	**-**	**(21.6)**	**4,822.7**	**(21.6)**
Deferred tax assets					
Opening balance	15.7	**-**	**-**	**15.7**	**-**
Remeasurements:					
Expected credit loss	-	**-**	**5.6**	**5.6**	**5.6**
Total deferred tax assets	15.7	**-**	**5.6**	**21.3**	**5.6**
Total change to assets	N/a	**-**	**(16.0)**	**N/a**	**(16.0)**
Liabilities					
No liabilities are impacted					
Total change to liabilities	N/a	**-**	**-**	**N/a**	**-**
Equity					
Retained earnings					
Opening balance	409.3	**-**	**-**	**409.3**	**-**
Increases/decreases:					
Remeasurements due to impairment (after tax)	-	**-**	**(16.0)**	**(16.0)**	**(16.0)**
Total retained earnings	409.3	**-**	**(16.0)**	**393.3**	**(16.0)**
Total change to equity	N/a	**-**	**(16.0)**	**N/a**	**(16.0)**

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)

1.7.1.2. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. From 1 January 2018, the Group has been recording an allowance for ECLs for all financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9. IFRS 9 provides an alternative option, as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has chosen not to use the simplified approach.

1.7.1.2.1. Measurement of ECLs

The measurement of ECLs depends on the staging of financial assets as described below:

- **Stage 1:** When a financial asset is first recognised it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1 a '12-month ECL' is recognised.
- **Stage 2:** When a financial asset shows a significant increase in credit risk from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2 a 'lifetime ECL' is recognised.
- **Stage 3:** When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit impaired, it is moved to Stage 3. For financial assets in Stage 3 a 'lifetime ECL' is recognised.
- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs.

In relation to the above:

- **'Lifetime ECL'** is defined as ECLs that result from all possible default events over the expected life of a financial instrument.
- **'12-month ECL'** is defined as the portion of lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

Each month the Group assesses whether there has been a change in credit quality and where necessary financial assets are then moved through the stages accordingly as outlined below:

Significant increase in credit risk (movement to Stage 2)

The Group applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a significant increase in credit risk, and therefore should move to Stage 2:

- quantitative measures consider the increase in an account's remaining lifetime PD at the reporting date compared to the expected residual lifetime PD when the account was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency;
- qualitative measures include the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms; and
- IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. The Group considers 30 days past due to be an appropriate backstop measure and will not rebut this presumption.

IFRS 9 provides an exception for low credit risk exposures, whereby entities are permitted to assume, without further analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. The Group has opted not to apply this low credit risk exemption.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.2. Impairment of financial assets (continued)
1.7.1.2.1. Measurement of ECLs (continued)

Default (movement to Stage 3)
The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default, and therefore should move to Stage 3:

- when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- when the borrower is more than 90 days past due on any material credit obligation to the Group; and
- when a material credit obligation to the Group has gone past maturity or there is a degree of doubt that the exit strategy for the obligation is likely.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Improvement (movement back to a lower stage)
The Group considers a loan to be 'cured' and therefore reclassified back to a lower stage (i.e. from Stage 3 to Stage 2, or Stage 2 to Stage 1) when none of the assessed criteria that caused movement into the higher stage have been present for at least 12 months. For loans with forbearance arrangements in place, the loan must first successfully complete a 12-month forbearance probation period before the above 12-month 'curing period' commences.

1.7.1.2.2. Calculation of ECLs
The key inputs into the calculation of ECLs are as follows and are discussed in turn below:

- Probability of default (PD);
- Exposure at default (EAD); and
- Loss given default (LGD).

PD: PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

The Group has developed a credit grading system for all its asset classes and has aligned these to a common master grading scale that has been aligned to the Standard and Poor grading scale. The Group operates both a model based PD for its high volume portfolios such as Consumer Lending and residential lending within Property Finance and has developed and implemented a 'slotting approach' for the low volume and high value obligors in Business Finance and large ticket commercial property cases. Both processes deliver a measure of a point-in-time measure of default.

For the model based portfolios the measure of PD is based on information available to the Group from credit reference agencies and internal product performance data. For the slotted portfolios, the measure of PD relates to attributes relating to financial strength, political and legal environment, asset/transaction characteristics, strength of sponsor and security.

For each asset class, the Group has a proprietary approach to extrapolate its best estimate of the point-in-time PD from 12 months to behavioural maturity, using economic response models that have been developed specifically to forecast the sensitivity of PD to key macroeconomic variables. The Group has used four scenarios to support its assessment of ECL; this includes a central view, and two alternative base cases representing more optimistic and more pessimistic outcomes. Periodically, the Group conducts stress testing of more extreme shocks to calibrate its determination of these alternative base cases.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.2. Impairment of financial assets (continued)
1.7.1.2.2. Calculation of ECLs (continued)

EAD: EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

EAD is designed to address increases in utilisation of committed limits and unpaid interest and fees that the Group would ordinarily expect to observe to the point of default, or through to the point of realisation of the collateral.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Group's models.

LGD: LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The Group segments its lending products into smaller homogenous portfolios as follows:

- **Property Finance:** The LGD is generally broken down into two parts. These include the Group's estimate of the probability of possession given default, combined with the loss given possession. The Group has continued to focus on the proportion of accounts that have not cured over an emergence period, rather than the proportion of accounts that enter possession. The LGD is based on the Group's estimate of a shortfall, based on the difference between the property value after the impact of a forced sale discount and sale costs, and the loan balance with the addition of unpaid interest and fees and first charge claims with regards to first charge residential mortgages.
- **Business Finance:** The LGD is based on experience of losses on repossessed assets. The LGD on Block and Wholesale portfolios is based on experience of losses supported by key judgements.
- **Consumer Lending:** The Group uses an estimate of the probability of charge-off, defined as six or more payments in arrears, combined with an estimate of the expected write-off based on established contractual forward flow arrangements for the sale of charge-off debt. There is no recovery portfolio.

In all cases the LGD or its components are tested against recent experience to ensure that they remain current.

1.7.1.2.3. Forward looking information
The Group incorporates forward looking information into the assessment of whether there has been a significant increase in credit risk and the calculation of ECLs.

The Group identifies significant macroeconomic factors, including house price inflation, unemployment rate and bank base rate, and factors these variables and their associated impact on PD, LGD and EAD into the ECL models used. Considerable judgement is required over how changes in macroeconomic factors affect ECLs. The Group has adopted the use of three forward looking scenarios on a probability-weighted approach. The Group sources economic scenarios from a third party source to form the basis of the three forward looking scenarios used. The scenarios are reviewed on a monthly basis, with a formal review process taking place quarterly.

1.7.1.2.4. Impact of adopting IFRS 9 on the impairment of the financial assets
The most significant impact on the Group's financial statements from the adoption of IFRS 9 results from the new impairment requirements. On the adoption of IFRS 9 on 1 January 2018, the increase in loss allowances (before tax) was £21.6 million. This is summarised in the table in Note 1.7.1.2.5.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.2. Impairment of financial assets (continued)

1.7.1.2.5. Transition disclosures

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017, to, the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

					Of which:		
	IAS 39 closing balance as at 31 Dec 2017 (Audited) £m	**Reclassi-fication £m**	**Remeasu-rement £m**	**IFRS 9 opening balance as at 1 Jan 2018 (Unaudited) £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**
Impairment losses on loans and advances to customers	31.6	**-**	**21.6**	**53.2**	**17.7**	**12.6**	**22.9**
Total provisions	31.6	**-**	**21.6**	**53.2**	**17.7**	**12.6**	**22.9**

1.7.1.3. Hedge accounting

IFRS 9 gives the option to continue to apply the hedge accounting requirements under IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group has elected to continue to apply IAS 39.

1.7.1.4. Impact of adopting IFRS 9 on regulatory capital

The Group's regulator has issued guidelines regarding transition requirements when adopting IFRS 9. The guidelines allow a choice of two approaches to recognise the impact of adopting IFRS 9 on regulatory capital:

- **Transitional:** this involves phasing in the full impact using transitional factors published in Regulation (EU) 2017/2395; or
- **Full adoption:** recognising the full impact on the day of adoption.

The Group has elected the transitional approach and will phase in the full impact using the EU regulatory transitional arrangements. This permits the Group to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that the Group may add back starts at 95% in 2018 and reduces to 25% by 2022. The impact in relation to loan loss allowances is the sum of the increase in loan loss allowances on day one of IFRS 9 adoption, plus, any subsequent increase in ECLs in the non-credit- impaired book thereafter. Any add-back must be tax-affected and accompanied by a recalculation of capital deduction thresholds, exposure and risk weighted assets.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)
1.7.1. IFRS 9 'Financial Instruments' (continued)
1.7.1.4. Impact of adopting IFRS 9 on regulatory capital (continued)

1.7.1.4.1. Transition disclosures
The following table shows the Group's total regulatory capital at 1 January 2018 calculated under IAS 39 compared with under IFRS 9 full adoption and IFRS 9 transitional.

	As at 31 Dec 2017 (Audited)	**As at 1 Jan 2018 (Unaudited)**	
	IAS 39 £m	**IFRS 9 transitional £m**	**IFRS 9 full adoption £m**
Share capital	2.5	**2.5**	**2.5**
Share premium account	87.3	**87.3**	**87.3**
Retained earnings	409.3	**393.3**	**393.3**
Intangible assets	(65.7)	**(65.7)**	**(65.7)**
Transitional adjustment	-	**15.2**	**-**
Common Equity Tier 1 capital	433.4	**432.6**	**417.4**
Capital securities	124.0	**124.0**	**124.0**
Additional Tier 1 capital	124.0	**124.0**	**124.0**
Total Tier 1 capital	557.4	**556.6**	**541.4**
Subordinated debt liability[a]	74.2	**74.2**	**74.2**
Collective impairment allowance	11.1	**-**	**-**
Tier 2 capital	85.3	**74.2**	**74.2**
Total regulatory capital	642.7	**630.8**	**615.6**

Full adoption of IFRS 9 on 1 January 2018, results in a reduction in Common Equity Tier 1 (CET1) capital of £16.0 million. This is as a result of the following movements:

- a £21.6 million reduction in retained earnings due to a rise in expected credit losses; and
- a £5.6 million increase in retained earnings due to the impact of these changes on deferred tax.

Total regulatory capital is reduced by an additional £11.1 million (total reduction to total regulatory capital of £27.1 million), due to the reduction of the collective impairment allowance.

Under the EU regulatory transitional arrangements set out in Regulation (EU) 2017/2395, the add back for 2018 is 95% of the reduction in Common Equity Tier 1 (CET1) capital on 1 January 2018 and 95% of the increase in the impairment losses relating to credit impaired assets since 1 January 2018 to the date of reporting. Accordingly the Group has added back £19.5 million to CET1 capital. The corresponding impact of the transitional arrangement to RWAs is an increase of £17.6 million.

[a] Excludes capitalised interest of £1.2 million. Accrued interest is payable semi-annually and is therefore excluded from capital reserves.

1. Basis of preparation (continued)

1.7. Adoption of new and revised standards and interpretations (continued)

1.7.2. IFRS 15 'Revenue from Contracts with Customers'

On 1 January 2018, the Group adopted the requirements of IFRS 15.

IFRS 15 establishes the principles to apply when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. The standard introduces a five step revenue recognition model to be applied to all contracts with customers to determine whether, how much, and when revenue is recognised.

The new standard replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. It applies to all revenue arising from contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Of particular note, interest income, the main source of revenue for the Group, falls outside the scope of IFRS 15.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), as such the standard is applied as of 1 January 2018 and comparative information is not restated. The cumulative effect of initially applying IFRS 15 is recognised as an adjustment to the opening balance of retained earnings. IFRS 15 is only applied retrospectively to contracts that are not completed contracts at 1 January 2018.

The Group assessed its non-interest revenue streams that fall under the scope of IFRS 15 and determined that there was no impact on the amount or timing of revenue to be recognised as a result of the adoption of IFRS 15. As such there is no adjustment to the opening balance of retained earnings or related tax balances. Furthermore, there is no impact to the consolidated statement of financial position or the consolidated statements of profit and loss and other comprehensive income. Revenue is disaggregated by reportable segment as detailed in Note 2.

1.7.3. IFRS 2 amendment 'Classification and Measurement of Share-based Payment Transactions'

On 1 January 2018, the amendments to IFRS 2 became effective in relation to the classification and measurement of share-based payment transactions. The amendments specifically relate to: effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The Group has had no share schemes in operation during the current period and as such the amendment to IFRS 2 has no impact.

1.8. New and revised standards and interpretations not yet adopted

A number of new and revised standards issued by the International Accounting Standards Board (IASB) have not yet come into effect. Those relevant to the Group are as follows:

1.8.1. IFRS 16 'Leases'

IFRS 16 introduces a single lessee accounting model that requires a lessee to recognise all leases (subject to certain exemptions) on-balance sheet. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting is largely unchanged. The new standard is effective from 1 January 2019 and replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. It applies to all leasing arrangements.

The Group is considering the potential impact on its consolidated financial statements. Initial assessments indicate IFRS 16 will not have a material impact as the Group is mainly a lessor of assets. Further assessments will be made to evaluate the impact that IFRS 16 adoption will have on a continuing basis. The Group has not yet decided whether it will use the optional exemptions.

Early adoption of IFRS 16 is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied, however the Group does not intend to adopt the standard until the date it becomes effective.

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 to investors, businesses and personal customers. It serves professional landlords and property traders in residential and commercial asset classes across long-term and shorter-term funding solutions. The division lends to trading businesses to fund the acquisition, refinancing and development of business premises.

  The division also serves the needs of personal customers through the provision of loans secured by a second charge on the main residence, for a range of purposes including; home improvements, loan consolidation and larger consumer purchases. It also lends in specialist areas of first charge mortgages, introducing the lending into retirement products.

- **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;
  - the **Development Finance** proposition provides finance solutions to SME developers looking to build or refurbish properties in the residential and commercial sectors for sale or investment;
  - the **Specialist Asset Finance** proposition includes leasing and hire purchase finance solutions in specialist UK SME market segments such as marine, aviation, healthcare and agriculture; and
  - **Shawbrook International Limited** provides finance solutions to consumers and SMEs in the Channel Islands, with a growing range of products designed to address a breadth of needs in the Jersey and Guernsey market.

- **Consumer Lending**
  Provides a broad range of lending products enabling the delivery of unsecured loans to consumers for a variety of purposes, including; home improvements, holiday ownership, personal loans and retail finance.

- **Central**
  As well as common costs, Central includes the Group's Treasury function and Consumer Savings business which are responsible for raising funding to support the lending divisions.

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.

2. Operating segments (continued)

Period ended 30 June 2018 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Central £m	Total £m
Interest and similar income	**94.6**	**39.7**	**32.4**	**2.6**	**169.3**
Interest expense and similar charges	**(23.0)**	**(7.2)**	**(4.8)**	**(5.4)**	**(40.4)**
Net interest income/(expense)	**71.6**	**32.5**	**27.6**	**(2.8)**	**128.9**
Operating lease rentals	**-**	**4.9**	**-**	**-**	**4.9**
Other expense	**-**	**(0.4)**	**-**	**-**	**(0.4)**
Depreciation on operating leases	**-**	**(3.7)**	**-**	**-**	**(3.7)**
Net income from operating leases	**-**	**0.8**	**-**	**-**	**0.8**
Fee and commission income	**0.2**	**4.8**	**0.5**	**0.1**	**5.6**
Fee and commission expense	**(1.5)**	**(0.3)**	**(2.0)**	**(0.2)**	**(4.0)**
Net fee and commission income/(expense)	**(1.3)**	**4.5**	**(1.5)**	**(0.1)**	**1.6**
Fair value losses on financial instruments	**-**	**-**	**-**	**(0.5)**	**(0.5)**
Net operating income/(expense)	**70.3**	**37.8**	**26.1**	**(3.4)**	**130.8**
Administrative expenses	**(8.0)**	**(10.3)**	**(8.7)**	**(34.4)**	**(61.4)**
Impairment (losses)/gains on financial assets	**(1.2)**	**10.0**	**(12.9)**	**-**	**(4.1)**
Provisions for liabilities and charges	**-**	**-**	**(1.8)**	**(0.4)**	**(2.2)**
Total operating expenses	**(9.2)**	**(0.3)**	**(23.4)**	**(34.8)**	**(67.7)**
Statutory profit/(loss) before taxation	**61.1**	**37.5**	**2.7**	**(38.2)**	**63.1**
Underlying adjustments	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before taxation on an underlying basis	**61.1**	**37.5**	**2.7**	**(38.2)**	**63.1**
Income tax charge on an underlying basis					**(16.4)**
Profit after taxation on an underlying basis					**46.7**
Assets	**3,369.3**	**1,235.8**	**712.0**	**1,060.7**	**6,377.8**
Liabilities	**-**	**-**	**-**	**(5,727.9)**	**(5,727.9)**
Net assets/(liabilities)	**3,369.3**	**1,235.8**	**712.0**	**(4,667.2)**	**649.9**

2. Operating segments (continued)

Period ended 30 June 2017 (Unaudited)	Property Finance £m	Restated Business Finance[a] £m	Consumer Lending £m	Central £m	Restated Total[a] £m
Interest and similar income	84.1	37.8	23.6	3.0	148.5
Interest expense and similar charges	(19.7)	(6.8)	(3.9)	(6.5)	(36.9)
Net interest income/(expense)	64.4	31.0	19.7	(3.5)	111.6
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	5.6	0.3	-	6.1
Fee and commission expense	(1.6)	(0.4)	(1.8)	(0.2)	(4.0)
Net fee and commission income/(expense)	(1.4)	5.2	(1.5)	(0.2)	2.1
Fair value gains on financial instruments	-	-	-	-	-
Net operating income/(expense)	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 financial assets	(1.4)	(3.6)	(5.2)	-	(10.2)
Provisions for liabilities and charges	-	-	-	(0.2)	(0.2)
Total operating expenses	(9.6)	(11.5)	(11.0)	(50.0)	(82.1)
Statutory profit/(loss) before taxation	53.4	25.8	7.2	(53.7)	32.7
Underlying adjustments	-	-	-	18.6	18.6
Profit/(loss) before taxation 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 taxation 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

[a] In the period ended 30 June 2017 £2.5 million has been reclassified from fee and commission income to interest and similar income in order to accurately reflect the nature of the revenue. The reclassification has no effect on either the net operating income, the profit before tax or the net assets of the Group.

2. Operating segments (continued)

Year ended 31 December 2017 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Central £m	Total £m
Interest and similar income	178.4	76.5	51.8	6.6	313.3
Interest expense and similar charges	(41.1)	(13.2)	(8.2)	(13.5)	(76.0)
Net interest income/(expense)	137.3	63.3	43.6	(6.9)	237.3
Operating lease rentals	-	12.3	-	-	12.3
Depreciation on operating leases	-	(10.6)	-	-	(10.6)
Net income from operating leases	-	1.7	-	-	1.7
Fee and commission income	0.4	11.2	0.7	-	12.3
Fee and commission expense	(3.3)	(0.7)	(8.5)	(0.3)	(12.8)
Net fee and commission (expense)/income	(2.9)	10.5	(7.8)	(0.3)	(0.5)
Fair value gains/(losses) on financial instruments	0.1	-	0.5	(0.4)	0.2
Net operating income/(expense)	134.5	75.5	36.3	(7.6)	238.7
Administrative expenses	(17.1)	(16.7)	(13.0)	(80.0)	(126.8)
Impairment losses on financial assets	(2.4)	(8.5)	(12.4)	-	(23.3)
Provisions for liabilities and charges	-	-	(2.5)	0.4	(2.1)
Total operating expense	(19.5)	(25.2)	(27.9)	(79.6)	(152.2)
Statutory profit/(loss) before taxation	115.0	50.3	8.4	(87.2)	86.5
Underlying adjustments	0.4	-	-	19.1	19.5
Profit/(loss) before taxation on an underlying basis	115.4	50.3	8.4	(68.1)	106.0
Income tax charge on an underlying basis					(26.8)
Profit after taxation on an underlying basis					79.2
Assets	3,187.0	1,076.0	617.4	878.3	5,758.7
Liabilities	-	-	-	(5,135.6)	(5,135.6)
Net assets/(liabilities)	3,187.0	1,076.0	617.4	(4,257.3)	623.1

3. Interest and similar income

	Period ended 30 Jun 2018 (Unaudited) £m	Restated Period ended 30 Jun 2017[a] (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Interest received from customers	**166.7**	145.7	307.1
Interest received from derivative financial instruments	**0.7**	2.3	4.4
Interest on loans and advances to banks	**1.9**	0.5	1.8
Total interest and similar income	**169.3**	148.5	313.3

Interest income recognised during the period on Stage 3 loans under the requirements of IFRS 9 was £2.0 million. In 2017, interest on impaired loans under the requirements of IAS 39 was £1.3 million in the period ended 30 June 2017 and £2.7 million in the year ended 31 December 2017.

The Group did not capitalise any interest income during any of the reported periods.

The amounts reported above include £164.6 million (period ended 30 June 2017: £142.7 million; year ended 31 December 2017: £301.9 million) of interest income on financial assets measured at amortised cost.

4. Interest expense and similar charges

	Period ended 30 Jun 2018 (Unaudited) £m	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Interest paid to depositors	**35.0**	33.0	67.3
Interest on amounts due to banks	**2.1**	0.7	1.8
Interest on subordinated debt liability	**3.2**	3.2	6.5
Other interest	**0.1**	-	0.4
Total interest expense and similar charges	**40.4**	36.9	76.0

The amounts reported above include £40.4 million (period ended 30 June 2017: £36.9 million; year ended 31 December 2017: £76.0 million) of interest expense on financial liabilities measured at amortised cost.

5. Administrative expenses

	Period ended 30 Jun 2018 (Unaudited) £m	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Payroll costs	**32.3**	36.0	66.1
Depreciation (excluding operating lease assets)	**1.0**	1.1	2.6
Amortisation of intangible assets	**3.0**	1.8	4.0
Operating lease rentals - land and buildings	**1.1**	0.8	1.6
Other administrative expenses[b]	**24.0**	32.0	52.5
Total administrative expenses	**61.4**	71.7	126.8

[a] In the period ended 30 June 2017 £2.5 million has been reclassified from fee and commission income to interest and similar income in order to accurately reflect the nature of the revenue. The reclassification has no effect on either the net operating income, the profit before tax or the net assets of the Group.

[b] Other administrative expenses in 2017 include legal and consultancy costs relating to the Marlin Consortium acquisition of the Company totalling £12.7 million in the period ended 30 June 2017 and £13.2 million in the year ended 31 December 2017.

6. Employee share-based payment transactions

Details of the 2015, 2016 and 2017 plans can be found in the Note 10 of the 2017 Annual Report and Accounts.

In August 2017, following the acquisition of the Group by the Marlin Consortium, there was an issue of 2,586,879 £0.01 shares and the vesting of all of the share option schemes in operation was accelerated. The acceleration of the share options were recognised as if the service and the non-market performance conditions of all schemes were met. Subsequent to vesting all shares were repurchased by the Marlin Consortium at the offer price of £3.40. The total charge relating to the accelerated vesting was £5.9 million, with the total share based payment charge for the year being £7.5 million. In 2018, no new schemes have been introduced and, as such, no share schemes are in operation.

7. Taxation

Recognised in the statement of profit and loss	**Period ended 30 Jun 2018 (Unaudited) £m**	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Current tax			
Current period	**16.1**	13.4	24.2
Adjustment in respect of prior periods	**-**	-	(1.1)
Total current tax	**16.1**	13.4	23.1
Deferred tax			
Origination and reversal of temporary differences	**0.3**	(1.5)	1.3
Adjustment in respect of prior periods	**-**	-	0.9
Total deferred tax	**0.3**	(1.5)	2.2
Total tax charge	**16.4**	11.9	25.3

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and further reductions to 17% (effective 1 April 2020) were substantively enacted on 16 March 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 period ended 30 June 2018 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 are measured at amortised cost.

Included within the total reported are those classified as loan receivables, finance lease receivables and instalment credit receivables as summarised below:

	30 Jun 2018[a] (Unaudited) £m	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (Audited) £m
Loan receivables	**4,889.5**	4,001.7	4,438.4
Finance lease receivables	**86.7**	91.5	88.9
Instalment credit receivables	**368.3**	303.6	350.8
Gross loans and advances to customers	**5,344.5**	4,396.8	4,878.1
Fair value adjustments for hedged risk	**(4.1)**	(1.8)	(2.2)
Less: Allowance for ECLs / impairment losses[b]	**(57.0)**	(27.9)	(31.6)
Total loans and advances to customers	**5,283.4**	4,367.1	4,844.3

Further analysis of the allowance for ECLs / impairment losses by type is shown below[b]:

	30 Jun 2018 (Unaudited)					30 Jun 2017 (Unaudited)	31 Dec 2017 (Audited)
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	Total £m	Total £m
Loan receivables	**17.7**	**12.9**	**12.0**	**-**	**42.6**	15.7	19.7
Finance lease receivables	**2.9**	**1.2**	**2.1**	**-**	**6.2**	9.6	9.1
Instalment credit receivables	**1.0**	**0.6**	**6.6**	**-**	**8.2**	2.6	2.8
Allowance for ECLs / impairment losses	**21.6**	**14.7**	**20.7**	**-**	**57.0**	27.9	31.6

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for further information.

[b] Allowances as at 30 June 2018 reflect expected credit losses calculated in accordance with IFRS 9. Allowances as at 30 June 2017 and 31 December 2017 reflect impairment losses calculated in accordance with IAS 39.

8. Loans and advances to customers (continued)

The below table shows an analysis of movements in the allowance for ECLs under IFRS 9, together with the ECL coverage percentage:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
As at 1 January 2018	**10.5**	**7.5**	**13.6**		**31.6**
Impact of adopting IFRS 9[a]	**7.2**	**5.1**	**9.3**		**21.6**
Restated balance as at 1 January 2018 under IFRS 9	**17.7**	**12.6**	**22.9**	**-**	**53.2**
Transfer to Stage 1	**3.4**	**(3.0)**	**(0.4)**		**-**
Transfer to Stage 2	**(0.9)**	**1.4**	**(0.5)**		**-**
Transfer to Stage 3	**(0.3)**	**(1.8)**	**2.1**		**-**
New financial assets originated or purchased	**7.8**	**0.3**	**0.3**		**8.4**
Financial assets that have been derecognised	**(1.5)**	**(0.9)**	**(2.3)**		**(4.7)**
Changes in models/risk parameters	**(4.6)**	**6.1**	**2.8**		**4.3**
Modifications without derecognition	**-**	**0.2**	**0.1**		**0.3**
Write-offs	**-**	**(0.2)**	**(4.3)**		**(4.5)**
As at 30 June 2018 (Unaudited)	**21.6**	**14.7**	**20.7**	**-**	**57.0**
ECL coverage as at 30 June 2018 (Unaudited)	**0.4%**	**5.0%**	**23.3%**	**-**	**1.1%**

Overall, the total allowance increased by £3.8 million compared to the balance at 1 January 2018, which was restated under IFRS 9. This net increase was largely driven by an increase in the ECL due to an increase in loan balances and portfolio mix. All models were monitored during H1 2018 and an increase in PD resulted in a further increase in ECL. This has been offset by derecognition and write-offs during the period.

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for full details of IFRS 9 adoption.

8. Loans and advances to customers (continued)

An analysis of movements in the allowance for impairment losses under IFRS 9 / IAS 39 for 2017 is as follows:

	30 Jun 2018 IFRS 9 (Unaudited) £m	30 Jun 2017 IAS 39 (Unaudited) £m	31 Dec 2017 IAS 39 (Audited) £m
At start of period	31.6	24.4	24.4
Impact of adopting IFRS 9[a]	21.6	-	-
Charge for impairment losses	4.1	10.2	23.3
Amounts written off in the period	(12.3)	(7.8)	(18.6)
Recoveries of amounts previously written off[b]	12.0	1.1	2.5
At end of period	57.0	27.9	31.6

Write-offs still under enforcement activity

Loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event.

Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances that were written off during the reporting period, and are still subject to enforcement activity was £10.3 million (period ended 30 June 2017: £3.9 million; year ended 31 December 2017: £6.3 million).

Modifications

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different instrument. Where such loans are derecognised, the renegotiated contract is a new loan and impairment is assessed in accordance with the Group's accounting policy.

Where the renegotiation of such loans are not derecognised, impairment continues to be assessed for significant increases in credit risk compared to the initial origination credit risk rating.

[a] Results for the period ended 30 June 2018 reflect the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 1.7.1 for full details of IFRS 9 adoption.

[b] On 15 March 2018, the Group received an interim payment of £5.0 million relating to the Group's insurance claim in respect of the controls breach identified in the Business Finance Division in H1 2016 and on 29 June 2018, the Group received firm confirmation that a further interim payment of £5.0 million would be made by the insurers. The combined amount of £10.0 million has been recognised in the six month period ended 30 June 2018.

9. 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 Master Agreement to document these transactions in conjunction with a Credit Support Annex. The following table, prepared under IFRS 9, analyses derivatives held for risk management purposes by type of instrument:

	Notional Amount £m	**Fair Value £m**
Interest rate swaps		
Assets		
As at 30 June 2018 (Unaudited)	**341.5**	**1.7**
As at 30 June 2017 (Unaudited)	485.0	5.5
As at 31 December 2017 (Audited)	389.0	1.8
Liabilities		
As at 30 June 2018 (Unaudited)	**479.5**	**(1.2)**
As at 30 June 2017 (Unaudited)	99.0	(0.1)
As at 31 December 2017 (Audited)	189.0	(0.3)
Interest rate options		
Liabilities		
As at 30 June 2018 (Unaudited)	**1,150.0**	**(3.3)**
As at 30 June 2017 (Unaudited)	500.0	(7.6)
As at 31 December 2017 (Audited)	500.0	(2.8)
Foreign exchange swaps		
Liabilities		
As at 30 June 2018 (Unaudited)	**60.2**	**(0.3)**
As at 30 June 2017 (Unaudited)	29.8	0.2
As at 31 December 2017 (Audited)	33.3	(0.3)

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

	Period ended 30 Jun 2018 (Unaudited) £m	Period ended 30 Jun 2017 (Unaudited) £m	Year ended 31 Dec 2017 (Audited) £m
Fair value gains/(losses) on financial instruments	**(1.2)**	1.6	3.9
Fair value gains/(losses) on hedged risk	**0.7**	(1.6)	(3.7)
Net fair value gains/(losses) on financial instruments	**(0.5)**	-	0.2

The Group's property loan portfolio includes loans whose interest rate terms are referenced to the three-month LIBOR index, but with a minimum reference rate of 0.75%. In March 2017 and March 2018 the Group sold interest rate options with a nominal value of £500.0 million and £650.0 million respectively into the wholesale market in order to hedge the Group's interest rate position against possible increases in the reference rate.

10. Intangible assets

	Goodwill £m	Computer software £m	Total £m
As at 1 January 2017	44.8	15.1	59.9
Additions	-	4.4	4.4
Amortised in the period	-	(1.8)	(1.8)
As at 30 June 2017 (Unaudited)	44.8	17.7	62.5
As at 1 July 2017	44.8	17.7	62.5
Additions	-	5.4	5.4
Amortised in the period	-	(2.2)	(2.2)
As at 31 December 2017 (Audited)	44.8	20.9	65.7
As at 1 January 2018	**44.8**	**20.9**	**65.7**
Additions	**-**	**3.7**	**3.7**
Amortised in the period	**-**	**(3.0)**	**(3.0)**
As at 30 June 2017 (Unaudited)	**44.8**	**21.6**	**66.4**

Impairment testing for cash generating units (CGUs) containing goodwill
For the purpose of impairment testing, goodwill is allocated to the Group's CGUs as shown below. The CGUs are 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.

	30 Jun 2018 (Unaudited) £m	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (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
Total goodwill	**44.8**	44.8	44.8

No impairment losses were recognised in any of the reported periods because the recoverable amounts of the CGUs were higher than their carrying values. The recoverable amounts of the CGUs were calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU.

Management performed a review for any indicators of impairment and concluded there were no indicators of impairment at the date of reporting.

Key Management judgements in estimating the cash flows of CGUs are as follows:

- **Cash flow period:** Four years of cash flows (post-tax profits) were included in the discounted cash flow model based on a Board approved plan. Forecast cash flows were based on expected future outcomes taking into account past experience. Forecast cash flows were adjusted for anticipated revenue growth and were reduced by any earnings retained to support growth in the underlying CGUs loan books through higher regulatory capital requirements.
- **Terminal value growth rate:** A terminal value growth rate was applied into perpetuity to extrapolate cash flows beyond the cash flow period. The terminal value growth rate was estimated by Management taking into account rates disclosed by comparable institutions. Sensitivity analysis on the cash flows identified that a 20.0% decrease in cash flows will not result in any impairment of the goodwill balance.

The key assumptions described above may change as economic and market conditions change. However, the value in use of all CGUs was significantly greater than their carrying values and sensitivity analysis identified that an increase of 3.0% in each of the individual CGU discount rates will not result in any impairment of the goodwill balance.

11. Provisions for liabilities and charges

	30 Jun 2018 (Unaudited) £m	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (Audited) £m
At start of period	**2.8**	1.3	1.3
Provisions utilised	**(0.1)**	-	(0.6)
Provisions made during the period	**2.2**	0.2	2.1
At end of period	**4.9**	1.5	2.8

Financial Services Compensation Scheme (FSCS)
The Group has an obligation to contribute to the FSCS to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised, to the extent that it can be reliably estimated, when the Group has an obligation in accordance with IAS 37 and the levy is legally enforceable, in line with IFRIC 21 Levies. At 30 June 2018, a provision of £0.6 million is recognised (30 June 2017: £1.5 million; 31 December 2017: £0.3 million). The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits.

Customer remediation and conduct issues
At 30 June 2018, a provision of £4.3 million is recognised (30 June 2017: £nil; 31 December 2017: £2.5 million) relating to potential instances of misrepresentation or breaches of contract by suppliers where the suppliers have become insolvent (and therefore the Group has limited recourse to those suppliers).

12. Subordinated debt liability

In October 2015, the Group issued £75.0 million fixed rate reset callable subordinated notes due 2025. The notes were listed on the London Stock Exchange on 28 October 2015. The notes bear interest on their principal amount at an initial rate of 8.5% per annum until the first reset date of 28 October 2020. Interest is payable semi-annually in arrears.

	30 Jun 2018 (Unaudited) £m	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (Audited) £m
At start of period	**75.4**	75.3	75.3
Interest expense	**3.2**	3.2	6.5
Repayment of interest	**(3.2)**	(3.2)	(6.4)
At end of period	**75.4**	75.3	75.4

13. Share capital

The following table shows the number of ordinary shares of £0.01 each that are issued and fully paid:

	30 Jun 2018 (Unaudited) No.	30 Jun 2017 (Unaudited) No.	31 Dec 2017 (Audited) No.
Ordinary shares of £0.01 each	**253,086,879**	250,500,000	253,086,879

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. Ordinary shares were removed from the Official List and trading cancelled on the London Stock Exchange on 24 August 2017.

14. Capital securities

In December 2017, the Company issued £125.0 million fixed rate reset perpetual Additional Tier 1 write down capital securities. The capital securities were listed on the Irish Stock Exchange on 8 December 2017. The capital securities bear interest on their principal amount at an initial rate of 7.875% per annum until the first reset date of 8 December 2022. Interest is payable semi-annually in arrears and is non-cumulative.

Full details of the capital securities can be found in Note 28 of the 2017 Annual Report and Accounts.

	30 Jun 2018 (Unaudited) £m	30 Jun 2017 (Unaudited) £m	31 Dec 2017 (Audited) £m
At start of period	**124.0**	-	-
Issue of capital securities	**-**	-	125.0
Cost of issuance of capital securities	**-**	-	(1.0)
Coupon paid on capital securities (net of tax)	**3.6**	-	-
Repayment of coupon on capital securities (net of tax)	**(3.6)**	-	-
At end of period	**124.0**	-	124.0

15. Financial instruments

15.1. Classification of financial instruments

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

As at 30 June 2018 Under IFRS 9 (Unaudited)	**Notes**	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**
Financial assets				
Cash and balances at central banks		**-**	**895.2**	**895.2**
Loans and advances to banks		**-**	**47.6**	**47.6**
Loans and advances to customers	8	**-**	**5,283.4**	**5,283.4**
Derivative financial assets	9	**1.7**	**-**	**1.7**
Total financial assets		**1.7**	**6,226.2**	**6,227.9**
Financial liabilities				
Customer deposits		**-**	**4,622.6**	**4,622.6**
Amounts due to banks		**-**	**974.3**	**974.3**
Derivative financial liabilities	9	**4.8**	**-**	**4.8**
Subordinated debt liability	12	**-**	**75.4**	**75.4**
Total financial liabilities		**4.8**	**5,672.3**	**5,677.1**

There have been no reclassifications of financial assets or liabilities during the period ended 30 June 2018.

15. Financial instruments (continued)

15.1. Classification of financial instruments (continued)

As at 30 June 2017 Under IAS 39 (Unaudited)	Notes	FVTPL	Loans and receivables	Other amortised cost	Total carrying amount
Financial assets					
Cash and balances at central banks		-	393.0	-	393.0
Loans and advances to banks		-	45.2	-	45.2
Loans and advances to customers	8	-	4,367.1	-	4,367.1
Derivative financial assets	9	5.5	-	-	5.5
Total financial assets		5.5	4,805.3	-	4,810.8
Financial liabilities					
Customer deposits		-	-	3,814.7	3,814.7
Amounts due to banks		-	-	538.0	538.0
Derivative financial liabilities	9	7.7	-	-	7.7
Subordinated debt liability	12	-	-	75.3	75.3
Total financial liabilities		7.7	-	4,428.0	4,435.7

There were no reclassifications of financial assets or liabilities during the period ended 30 June 2017.

As at 31 December 2017 Under IAS 39 (Audited)	Notes	FVTPL	Loans and receivables	Other amortised cost	Total carrying amount
Financial assets					
Cash and balances at central banks		-	752.5	-	752.5
Loans and advances to banks		-	28.8	-	28.8
Loans and advances to customers	8	-	4,844.3	-	4,844.3
Derivative financial assets	9	1.8	-	-	1.8
Total financial assets		1.8	5,625.6	-	5,627.4
Financial liabilities					
Customer deposits		-	-	4,376.2	4,376.2
Amounts due to banks		-	-	607.3	607.3
Derivative financial liabilities	9	3.4	-	-	3.4
Subordinated debt liability	12	-	-	75.4	75.4
Total financial liabilities		3.4	-	5,058.9	5,062.3

There were no reclassifications of financial assets or liabilities during the year ended 31 December 2017.

15. Financial instruments (continued)

15.2. Fair value of financial instruments

The valuation techniques applied by the Group and associated inputs used to develop those measurements remain unchanged from the year ended 31 December 2017. Details are provided in Note 30 of the 2017 Annual Report and Accounts.

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

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

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

	30 Jun 2018 (Unaudited)			30 Jun 2017 (Unaudited)			31 Dec 2017 (Audited)		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets (at amortised cost)									
Cash and balances at central banks	**-**	**-**	**895.2**	-	-	393.0	-	-	752.5
Loans and advances to banks	**-**	**47.6**	**-**	-	45.2	-	-	28.8	-
Loans and advances to customers	**5,283.4**	**-**	**-**	4,367.1	-	-	4,844.3	-	-
Financial liabilities (at amortised cost)									
Customer deposits	**-**	**4,622.6**	**-**	-	3,814.7	-	-	4,376.2	-
Amounts due to banks	**-**	**974.3**	**-**	-	538.0	-	-	607.3	-
Subordinated debt liability	**-**	**75.4**	**-**	-	75.3	-	-	75.4	-

There were no transfers of financial instruments between the levels of the fair value hierarchy in any of the reported periods.

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

	30 Jun 2018 (Unaudited)			30 Jun 2017 (Unaudited)			31 Dec 2017 (Audited)		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets (at fair value)									
Derivative financial assets	**-**	**1.7**	**-**	-	5.5	-	-	1.8	-
Financial liabilities (at fair value)									
Derivative financial liabilities	**-**	**4.8**	**-**	-	7.7	-	-	3.4	-

There were no transfers of financial instruments between the levels of the fair value hierarchy in any of the reported periods.

15. Financial instruments (continued)

15.2. Fair value of financial instruments (continued)

The below table shows a comparison of the carrying amounts per the statement of financial position, and the fair values of those financial instruments measured at amortised cost:

	Carrying amount £m	Fair value £m
As at 30 June 2018 (Unaudited)		
Financial assets (at amortised cost)		
Cash and balances at central banks	**895.2**	**895.2**
Loans and advances to banks	**47.6**	**47.6**
Loans and advances to customers	**5,283.4**	**5,505.5**
Total financial assets (at amortised cost)	**6,226.2**	**6,448.3**
Financial liabilities (at amortised cost)		
Customer deposits	**4,622.6**	**4,637.4**
Amounts due to banks	**974.3**	**974.3**
Subordinated debt liability	**75.4**	**79.6**
Total financial liabilities (at amortised cost)	**5,672.3**	**5,691.3**
As at 30 June 2017 (Unaudited)		
Financial assets (at amortised cost)		
Cash and balances at central banks	393.0	393.0
Loans and advances to banks	45.2	45.2
Loans and advances to customers	4,367.1	4,577.3
Total financial assets (at amortised cost)	4,805.3	5,015.5
Financial liabilities (at amortised cost)		
Customer deposits	3,814.7	3,819.0
Amounts due to banks	538.0	538.0
Subordinated debt liability	75.3	78.8
Total financial liabilities (at amortised cost)	4,428.0	4,435.8
As at 31 December 2017 (Audited)		
Financial assets (at amortised cost)		
Cash and balances at central banks	752.5	752.5
Loans and advances to banks	28.8	28.8
Loans and advances to customers	4,844.3	5,045.9
Total financial assets (at amortised cost)	5,625.6	5,827.2
Financial liabilities (at amortised cost)		
Customer deposits	4,376.2	4,369.3
Amounts due to banks	607.3	594.5
Subordinated debt liability	75.4	81.0
Total financial liabilities (at amortised cost)	5,058.9	5,044.8

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
- Conduct risk

Details of the risks to which the business is exposed are set out in Note 31 of the 2017 Annual Report and Accounts.

16.1. Credit risk

Credit quality of assets

The following table summarises the credit quality and the maximum exposure to credit risk of loans and advances to customers. The table is based on the Group's internal credit rating system as detailed below and year end stage classification. The amounts presented are gross of impairment allowances.

	30 Jun 2018 (Unaudited)				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Grades 1-10: Low risk	**2,483.8**	**30.6**	**7.1**	**-**	**2,521.5**
Grades 11-15: Medium risk	**1,480.5**	**60.5**	**3.6**	**-**	**1,544.6**
Grades 16-25: Higher risk	**996.3**	**203.8**	**78.3**	**-**	**1,278.4**
Gross loans and advances to customers	**4,960.6**	**294.9**	**89.0**	**-**	**5,344.5**

The credit quality classifications used are defined as follows:

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

16.2. 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;
- A minimum 2 year probation period has passed from the date the forborne exposure was considered as 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;

16. Risk management (continued)

16.2. Customer risk (continued)

The following tables provide a summary of forborne[a] loans and advances to customers as at 30 June 2018:

As at 30 June 2018 (Unaudited)	Performing			Non-performing			
	Instruments with modification to their T&Cs £m	Refinancing £m	Total £m	Instruments with modification to their T&Cs £m	Refinancing £m	Total £m	Total forborne loans £m
Property Finance	**6.0**	**-**	**6.0**	**39.8**	**-**	**39.8**	**45.8**
Business Finance	**12.4**	**1.0**	**13.4**	**18.0**	**1.0**	**19.0**	**32.4**
Consumer Lending	**1.5**	**-**	**1.5**	**8.8**	**-**	**8.8**	**10.3**
Total loans and advances to customers	**19.9**	**1.0**	**20.9**	**66.6**	**1.0**	**67.6**	**88.5**

As at 30 June 2018 (Unaudited)	Gross amount of forborne loans			ECLs of forborne loans			
	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Coverage %
Property Finance	**6.0**	**39.8**	**45.8**	**0.1**	**3.5**	**3.6**	**7.9%**
Business Finance	**13.4**	**19.0**	**32.4**	**0.4**	**3.6**	**4.0**	**12.3%**
Consumer Lending	**1.5**	**8.8**	**10.3**	**0.1**	**4.3**	**4.4**	**42.7%**
Total loans and advances to customers	**20.9**	**67.6**	**88.5**	**0.6**	**11.4**	**12.0**	**13.6%**

[a] During the reporting period the Group adopted the European Banking Authority ('EBA') Technical Standards on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013 as part of the implementation of IFRS 9. Under this standard, when forbearance measures are extended to non-performing exposures, the exposures may be considered to have ceased being non-performing only when all of the following conditions are met: (a) the extension of forbearance does not lead to the recognition of impairment or default; (b) one year has passed since the forbearance measures were extended; (c) there is not, following the forbearance measures, any past-due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions.

The results for the period ending 30 June 2018 is therefore not directly comparable to prior reporting periods, as the forbearance curing period of 2 years as per the EBA technical standards were not applied in prior periods.

16. Risk management (continued)

16.2. Customer risk (continued)

In 2017, 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;
- 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 in the periods ending 30 June 2017 and 31 December 2017 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%
Business Finance	361	30.1	4.7	15.6%
Consumer Lending	596	3.8	1.8	47.4%
Total	1,194	50.7	7.2	14.2%

Forbearance as at 31 December 2017 (Audited)	Number	Capital balances £m	Provisions £m	Coverage %
Property Finance	239	16.2	1.0	6.2%
Business Finance	361	35.8	5.3	14.8%
Consumer Lending	830	5.3	2.8	52.8%
Total	1,430	57.3	9.1	15.9%

There was one property repossession during the period (30 June 2017: six; 31 December 2017: seven). The total carrying value of this asset was £0.1 million ((30 June 2017: £1.0 million; 31 December 2017: £1.1 million).

16. Risk management (continued)

16.2. Customer risk (continued)

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment. From 1 January 2018, assets are categorised in accordance with IFRS 9 as Stage 1, Stage 2, Stage 3 or POCI as detailed in Note 1.7.1.2.1.

As at 30 June 2018 Under IFRS 9 (Unaudited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Stage 1	**3,175.3**	**1,110.3**	**675.0**	**4,960.6**
Stage 2	**150.7**	**86.6**	**57.6**	**294.9**
Stage 3	**56.0**	**28.4**	**4.6**	**89.0**
POCI	**-**	**-**	**-**	**-**
Gross loans and advances to customers	**3,382.0**	**1,225.3**	**737.2**	**5,344.5**
Fair value adjustment on hedged risk	**(3.5)**	**-**	**(0.6)**	**(4.1)**
Less: allowances for impairment losses	**(9.2)**	**(23.2)**	**(24.6)**	**(57.0)**
Total loans and advances to customers	**3,369.3**	**1,202.1**	**712.0**	**5,283.4**

In 2017, under the requirements of IAS 39, impairments were categorised as follows:

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.

16. Risk management (continued)

16.2. Customer risk (continued)

As at 30 June 2017 Under IAS 39 (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
Gross loans and advances to customers	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)
Total loans and advances to customers	2,781.3	1,064.7	521.1	4,367.1

As at 31 December 2017 Under IAS 39 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Neither past due nor impaired	3,114.8	1,015.7	611.3	4,741.8
Past due but not impaired				
Up to 30 days	9.2	10.4	1.0	20.6
30-60 days	32.8	4.0	7.4	44.2
60-90 days	7.8	1.2	2.6	11.6
Over 90 days	18.1	2.1	-	20.2
Total past due but not impaired	67.9	17.7	11.0	96.6
Impaired Assets	13.3	21.5	4.9	39.7
Gross loans and advances to customers	3,196.0	1,054.9	627.2	4,878.1
Fair value adjustment on hedged risk	(2.7)	-	0.5	(2.2)
Less: allowances for impairment losses	(6.3)	(15.0)	(10.3)	(31.6)
Total loans and advances to customers	3,187.0	1,039.9	617.4	4,844.3

16. Risk management (continued)

16.2. Customer risk (continued)

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

As at 30 June 2018 (Unaudited)	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
East Anglia	**105.8**	**38.0**	**30.6**	**174.4**
East Midlands	**108.0**	**23.0**	**56.5**	**187.5**
Greater London	**1,313.1**	**271.9**	**76.0**	**1,661.0**
Guernsey/Jersey/Isle of Man	**19.8**	**48.0**	**0.1**	**67.9**
North East	**47.5**	**28.1**	**34.9**	**110.5**
North West	**275.7**	**177.0**	**88.7**	**541.4**
Northern Ireland	**12.9**	**-**	**2.0**	**14.9**
Scotland	**199.5**	**100.7**	**86.2**	**386.4**
South East	**683.3**	**228.4**	**132.6**	**1,044.3**
South West	**246.9**	**104.1**	**57.6**	**408.6**
Wales	**73.5**	**36.3**	**30.0**	**139.8**
West Midlands	**133.3**	**121.9**	**71.9**	**327.1**
Yorkshire/Humberside	**162.8**	**47.8**	**70.1**	**280.7**
Gross loans and advances to customers	**3,382.1**	**1,225.2**	**737.2**	**5,344.5**

As at 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
Gross loans and advances to customers	2,789.7	1,078.6	528.5	4,396.8

16. Risk management (continued)

16.2. Customer risk (continued)

As at 31 December 2017 (Audited)	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	99.0	75.3	25.6	199.9
East Midlands	100.5	34.7	48.6	183.8
Greater London	1,233.8	169.8	64.9	1,468.5
Guernsey/Jersey/Isle of Man	18.6	47.0	0.1	65.7
North East	45.5	16.4	29.9	91.8
North West	264.5	159.9	75.4	499.8
Northern Ireland	13.6	2.8	1.7	18.1
Scotland	183.0	71.0	76.9	330.9
South East	648.3	169.3	109.9	927.5
South West	239.5	89.7	48.3	377.5
Wales	69.4	84.8	24.4	178.6
West Midlands	125.0	74.8	62.0	261.8
Yorkshire/Humberside	155.3	59.4	59.5	274.2
Gross loans and advances to customers	3,196.0	1,054.9	627.2	4,878.1

17. Related party transactions

There were no changes to the nature of the related party transactions during the period ended 30 June 2018 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 31 December 2017 can be found in the 2017 Annual Report and Accounts.

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 which 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 contract 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.

In 2018, the Group's Consumer Lending division continued to see an increase in the number of customer complaints relating to the provision of solar panels by certain suppliers. These complaints relate either to the quality of the panels or to representations allegedly made by suppliers as to the expected financial performance of the panels and the Group investigates each complaint on its individual merits.

19. Post balance sheet events

There have been no significant events between 30 June 2018 and the date of approval of the interim financial report which would require a change or additional disclosure in the financial statements.

Additional Information

The following section sets out the key capital metrics for the Group (excluding unverified profits) and is not covered by the Independent Review Report on Page 11[a]:

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

	30 Jun 2018 IFRS 9 transitional[b] (Unaudited) £m	30 Jun 2017 IAS 39 (Unaudited) £m	31 Dec 2017 IAS 39 (Audited) £m
Share capital	**2.5**	2.5	2.5
Share premium account	**87.3**	87.3	87.3
Fair value reserve	**-**	-	-
Retained earnings (verified)[c]	**389.4**	368.6	409.3
Intangible assets	**(66.4)**	(62.5)	(65.7)
Transitional adjustment	**19.5**	-	-
Common Equity Tier 1 capital	**432.3**	395.9	433.4
Capital securities	**124.0**	-	124.0
Additional Tier 1 capital	**124.0**	-	124.0
Total Tier 1 capital	**556.3**	395.9	557.4
Subordinated debt liability[d]	**74.3**	74.2	74.2
Collective impairment allowance	**-**	9.8	11.1
Tier 2 capital	**74.3**	84.0	85.3
Total regulatory capital	**630.6**	479.9	642.7

Total regulatory capital reconciles to total equity per the Group's consolidated statement of financial position as follows:

	30 Jun 2018 IFRS 9 transitional[b] (Unaudited) £m	30 Jun 2017 IAS 39 (Unaudited) £m	31 Dec 2017 IAS 39 (Audited) £m
Total regulatory capital	**630.6**	479.9	642.7
Subordinated debt liability[c]	**(74.3)**	(74.2)	(74.2)
Collective impairment allowance	**-**	(9.8)	(11.1)
Transitional adjustment	**(19.5)**	-	-
Intangible assets	**66.4**	62.5	65.7
Unverified retained earnings[b]	**46.7**	-	-
Total equity	**649.9**	458.4	623.1

[a] For the purpose of regulatory capital calculations, unverified profits of £46.7 million are excluded (30 June 2017: £nil; 31 December 2017: £nil). Refer to the notes on page 5 for definitions and details of the calculations.

[b] The period ended 30 June 2018 includes adjustments for phasing in the impact of IFRS 9 adoption in accordance with EU regulatory transitional arrangements. Refer to Note 1.7.1.4 for further detail.

[c] For the purpose of regulatory capital calculations, unverified profits of £46.7 million are excluded (30 June 2017: £nil; 31 December 2017: £nil).

[d] For the purpose of regulatory capital calculations, capitalised interest of £1.1 million is excluded (30 June 2017: £1.1 million; 31 December 2017: £1.2 million). Accrued interest is payable semi-annually and is therefore excluded from capital reserves.

Additional Information (continued)

	30 Jun 2018 (Unaudited)	30 Jun 2017 (Unaudited)	31 Dec 2017 (Unaudited)
Common Equity Tier 1 capital ratio	**11.3%**	12.8%	12.9%
Total Tier 1 capital ratio	**14.6%**	12.8%	16.6%
Total capital ratio	**16.5%**	15.6%	19.1%
Leverage ratio	**8.4%**	7.8%	9.4%
Risk-weighted assets	**3,823.2**	3,083.0	3,361.7
Liquidity coverage ratio	**307.3%**	251.3%	290.6%

On 27 June 2018, the Prudential Regulation Authority granted permission for the Group to reduce its Pillar 2A requirement to 2.18% of risk-weighted assets (30 June 2017 and 31 December 2017: 2.50% of risk-weighted assets).

To illustrate the impact of IFRS 9 adoption, the following table provides an overview of the Group's capital metrics under IFRS 9 adjusted for transitional arrangements, compared to if IFRS 9 transitional arrangements had not been applied (i.e. full adoption):

	30 Jun 2018[a] (Unaudited)
Available capital (amounts)	
Common Equity Tier 1 (CET1) capital (£m)	**432.3**
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied (£m)	**412.8**
Tier 1 capital (£m)	**556.3**
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**536.8**
Total capital (£m)	**630.6**
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**611.1**
Risk-weighted assets (amounts)	
Total risk-weighted assets (£m)	**3,823.2**
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**3,805.6**
Capital ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	**11.3%**
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	**10.8%**
Tier 1 (as a percentage of risk exposure amount)	**14.6%**
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	**14.0%**
Total capital (as a percentage of risk exposure amount)	**16.5%**
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	**16.0%**
Leverage ratio	
Leverage ratio total exposure measure (£m)	**6,594.6**
Leverage ratio	**8.4%**
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**8.1%**