shawbrook

2023

Shawbrook Group plc
Interim Financial Report

Banking for the real world.

Shawbrook in numbers

Deep expertise in a broad range of carefully selected markets, allowing us to continue to deliver sustainable growth

21%
Annualised loan book growth to £11.9 billion[1]
(FY 2022: £10.5 billion)

Combining technology and data with human talent and judgement

36.6%
Underlying cost to income ratio
(H1 2022: 41.3%);

41.5% statutory cost to income ratio
(H1 2022: 43.6%)

61 bps
Cost of risk
(H1 2022: 38 bps)

Continued profitability through growing and engaged customer base

£149.3 million
Underlying profit before tax
(H1 2022: £111.4 million);

£135.1 million statutory profit before tax
(H1 2022: £106.4 million)

4.7/5
Trustpilot score[2]
(FY 2022: 4.6/5)

Track record of superior returns

20.5%
Underlying return on tangible equity
(H1 2022: 19.6%);

18.4% statutory return on tangible equity
(H1 2022: 18.6%)

5.2%
Net interest margin
(H1 2022: 5.0%[3])

Conservative capital management

12.2%
CET1 capital ratio
(FY 2022: 12.7%[4])

14.8%
Total capital ratio
(FY 2022: 15.6%[4])

Talented and experienced colleagues working towards an ambitious vision

84%
Employee engagement score (2022: 82%)

1,355
Employees[5]
(2022: 1,158)

1 The annualised growth rate of 21% represents the loan book growing to £11.6 billion and excludes the Bluestone Mortgages Limited acquisition. Including the acquisition, the loan book was £11.9 billion and represented an annualised growth rate of 27%.

2 Shawbrook's TrustPilot score (excluding The Mortgage Lender Limited and Bluestone Mortgages Limited) as at June 2023.

3 Excluding gain on sale, net interest margin was 4.8%.

4 Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. Risk-weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

5 The Group's six-month average number of employees, calculated in line with the Companies Act 2006 requirement. H1 2023 position includes Bluestone Mortgages Limited employees from 1 June 2023 following the acquisition in May 2023.

Contents

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We are Shawbrook

We are a specialist bank. Driven by our purpose, **to power up ingenuity to create opportunity**, we support real estate professionals, SMEs and consumers with their pressing and often complex funding needs.

We use our 'best of both' proposition, combining great technology and human ingenuity to understand our customers' individual requirements and deliver the right finance solutions seamlessly and at scale.

We embrace a multi-channel distribution model which, coupled with our sophisticated approach to risk management and our digital capabilities, means we can act nimbly and resourcefully to meet the evolving needs of our customers.

Our inclusive culture is one that fosters creativity and pragmatism, and we continue to build on our track record of innovation and strong returns to grow carefully across a diverse range of specialist customer segments.

Highlights

Shawbrook Group plc ('Shawbrook' or the 'Group') today announces its interim results for the six months ended 30 June 2023.

Financial highlights

- Loan book grew to £11.9 billion[1] as at 30 June 2023 (31 December 2022: £10.5 billion), driven by strong net lending volumes across Real Estate, SME and Residential Mortgage Brands.
- Strong profitability maintained in the first half of 2023, achieving 34% growth in underlying profit before tax to £149.3 million compared to £111.4 million in H1 2022 (27% growth on a statutory basis from £106.4 million to £135.1 million). Underlying return on tangible equity was 20.5% compared to 19.6% for H1 2022 (18.4% on a statutory basis compared to 18.6% for H1 2022), supported by the diversification of our proposition.
- We continue to remain alert to the potential challenges that lie ahead given the uncertain macroeconomic environment, however we are yet to see any material changes to our early warning indicators, with credit quality remaining strong and the number of customers in arrears remaining stable. The overall arrears rate as at 30 June 2023 was 1.9%[2] (31 December 2022: 1.9%).
- Further strengthened and diversified our funding base, with our deposit book growing by 22% on an annualised basis to £12.1 billion (31 December 2022: £10.9 billion) and our total savings customer base increasing by 16% to c.262,000 (31 December 2022: c.225,000).
- Maintained strong surplus liquidity and capital resources, with a Common Equity Tier 1 (CET1) ratio of 12.2% (31 December 2022: 12.7%[3]), a total capital ratio of 14.8% (31 December 2022: 15.6%[3]) and a liquidity coverage ratio of 330.7% (31 December 2022: 321.3%), reflecting our liquid balance sheet.

Strategic highlights

- Completed the acquisition of Bluestone Mortgages Limited (BML) in May 2023, helping us to deliver an even stronger proposition to homeowners across the UK.
- Continued to invest in and strengthen our digital capabilities, deploying innovative solutions across the business to improve our customer propositions:
  - Launched the Shawbrook 'Colleague Hub', a strategic platform currently used by our Real Estate business. Born out of our 'Next Generation Underwriting' project, the platform digitalises processes to help maximise our underwriters' productivity in making valuable lending decisions.
  - Continued to build out our new digital savings experience. This introduces enhanced self-service functionality to our customers and automated processes for our colleagues, to create a more seamless and streamlined savings proposition.
  - Further invested in our Digital SME Lending proposition, using our auto decisioning capabilities to offer an improved customer journey.
- As an organisation that seeks to protect our customers and promote good outcomes, we continued to embed the Financial Conduct Authority's new Consumer Duty across the business.
- Our employee engagement score improved to 84% (2022: 82%), demonstrating how our people are proud of our culture and brand.
- Continued to extend our positive ESG impact:
  - Progressed our climate roadmap with a focus on embedding our strategy across the Group. This includes integrating the use of a climate portal into credit underwriting teams.
  - Extended our existing relationship with Saracens. This gives us the opportunity to further deepen our commitment to the Saracens Foundation and men's and women's rugby teams, as well as becoming the new principal partner of the Mavericks netball team from 2024.

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1 Excluding the Bluestone Mortgages Limited acquisition, the loan book was £11.6 billion.

2 Loans that are equal to or greater than two payments in arrears (includes all term expired).

3 Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. Risk weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

Chief Executive Officer's statement

"The resilience and agility of the model we have created at Shawbrook gives us the confidence to continue investing in our brand, people and the propositions we offer across a diverse range of markets. The sustainable returns we generate also enable us to further scale-up our model through ongoing investment in data and technology. Our 'best of both' approach creates opportunities in the current volatile macroeconomic environment."

Marcelino Castrillo
Chief Executive Officer

The first half of the year has again demonstrated the benefits of our business model - differentiated by our 'best of both' approach and fuelled by resilient and diversified funding. We continued to expand our presence across a range of carefully selected specialist markets, contributing to the sustained growth of our loan book to £11.9 billion[1] and delivering stable returns, with an underlying return on tangible equity of 20.5% (18.4% on a statutory basis). Expanding our brand presence in the deposit market, we successfully attracted 37,000 new savings customers, increasing our retail deposit base to £12.1 billion. We have grown our liquidity levels to maintain a healthy liquidity coverage ratio as we continue to fund our lending growth.

Continuing investment in our digital strategy enables us to scale-up our proposition and deliver operational leverage: our underlying cost to income ratio has reduced further to 36.6% (41.5% on a statutory basis). Data, technology and organisational design are also providing us with access to a growing number of early warning indicators, with insights enabling us to proactively address any potential issues or stress in the loan book. Notwithstanding the volatile macroeconomic environment, our portfolios remain resilient, with the Group's overall arrears rate remaining stable at 1.9%[2], supported by low loan-to-value levels and prudent risk appetite. We continue to use automated tools where appropriate, including our 'Vision' digital portfolio monitoring tool, Single Customer View capabilities, and in depth use of external data sources to enhance our proprietary data sets. This allows us to gather deeper insights into credit performance, while maintaining ongoing dialogue with our customers to ensure they have access to the support they need.

Complementing our organic growth, in May 2023 we completed the acquisition of BML. Sharing the Group's approach to providing specialist finance, through the combination of technology and data with the expertise and judgement of people, BML is a respected name in the specialist UK mortgage market. As a result, I believe the acquisition will help us to deliver an even stronger proposition to homeowners across the UK.

Further investment in our 'best of both' model includes the launch of our strategic platform 'Colleague Hub'. Designed to help us transform the end-to-end customer journey, the digital platform will increase both capacity and speed of delivery, initially within our Real Estate business, helping to maximise our underwriters' productivity in making valuable lending decisions. In our savings business, we continued to build out our digital savings experience, which, when launched externally, will offer a brand new digital online experience for our savings customers. Further investment was also made in our newly launched Digital SME Lending proposition, using our auto-decisioning tool to provide a slicker customer experience for our SME customers and improve internal processing times.

Recruitment and retention of talent remain paramount to Shawbrook's continued success. We are proud of the unique culture we have created, which enables and celebrates our ability to be practical, personal and creative, and it is pleasing to see that once again reflected in our latest employee engagement survey results. Achieving an engagement score of 84%, we are now a favoured employer for the very best talent.

Our people are also actively involved in the delivery of initiatives that make a positive impact on society and the communities in which we operate, beyond the products and services we offer. We have extended our relationship with Saracens, not only to become principal partners of the Mavericks netball team from 2024, but to also deepen our commitment to the rugby teams and Empower Her project, co-developed with the Saracens Foundation, as well as a newly launched project with the Saracens High School. These relationships allow us to create opportunity by supporting social mobility and gender equality in both business and elite sport.

The resilience and agility of the model we have created at Shawbrook gives us the confidence to continue investing in our brand, people and the propositions we offer across a diverse range of markets. The sustainable returns we generate also enable us to further scale-up our model through ongoing investment in data and technology. Our 'best of both' approach creates opportunities in the current volatile macroeconomic environment.

[1] Excluding the Bluestone Mortgages Limited acquisition, the loan book was £11.6 billion.

[2] Loans that are equal to or greater than two payments in arrears (includes all term expired).

Financial review

"The challenging macroeconomic outlook in the first half of 2023 created uncertainty for our customers, however, our underlying results reflect the strength of our 'best of both' human and technology proposition that supports our customers' needs in these difficult times. During this period, we delivered an underlying return on tangible equity of 20.5%, annualised loan book growth of 21%[1], increased margins and cost efficiency, whilst continuing to invest in our digital strategy and growth plans, including our successful acquisition of BML. Despite the volatile start to the year, we continue to focus on our strategic growth initiatives, underpinned by our strong and prudent capital and liquidity management. On a statutory basis our profit and return on tangible equity of 18.4% were impacted by the recognition of a provision against historical timeshare loans, which we have provided for as we pursue recovery options."

Dylan Minto
Chief Financial Officer

Performance indicators

Definitions of all metrics included in the following tables are provided on page 76.

Financial performance metrics[2]
In the period ended 30 June 2023, there are underlying adjustments of £14.2 million (30 June 2022: £5.0 million) (see page 9). The following table is shown on both a statutory and underlying basis.

	Underlying			Statutory		
For the six months ended 30 June (Unaudited)	**2023 %**	2022 %	Change	**2023 %**	2022 %	Change
Gross asset yield	**8.9**	6.3	2.6%	**8.9**	6.3	2.6%
Liability yield	**(3.6)**	(1.3)	(2.3%)	**(3.6)**	(1.3)	(2.3%)
Net interest margin	**5.2**	5.0	0.2%	**5.2**	5.0	0.2%
Management expenses ratio	**(1.9)**	(2.1)	0.2%	**(2.2)**	(2.2)	–
Cost to income ratio	**36.6**	41.3	4.7%	**41.5**	43.6	(2.1%)
Cost of risk	**(0.61)**	(0.38)	(0.23%)	**(0.61)**	(0.38)	(0.23%)
Return on lending assets before tax	**2.7**	2.5	0.2%	**2.4**	2.4	–
Return on tangible equity	**20.5**	19.6	0.9%	**18.4**	18.6	(0.2%)

1 Including the acquisition of BML, the loan book was £11.9 billion, representing an annualised growth rate of 27%.
2 Metrics are annualised based on the 181 calendar days between January and June in 2023 (2022: 181 calendar days).

Financial review

Financial position metrics

	30 Jun 2023	31 Dec 2022	Change
Assets and liabilities			
Loan book (£m)	**11,883.3**	10,495.2	13.2%
Average principal employed (£m)	**11,128.2**	9,375.7	18.7%
Customer deposits (£m)	**12,101.0**	10,914.5	10.9%
Wholesale funding (£m)	**1,945.0**	1,615.1	20.4%
Liquidity			
Liquidity coverage ratio (%)	**330.7**	321.3	9.4%
Capital and leverage[1 2]			
Common Equity Tier 1 capital ratio (%)	**12.2**	12.7	(0.5%)
Total Tier 1 capital ratio (%)	**13.6**	14.3	(0.7%)
Total capital ratio (%)	**14.8**	15.6	(0.8%)
Leverage ratio (%)	**8.1**	8.7	(0.6%)
Risk-weighted assets (£m)	**8,364.4**	7,463.1	12.1%

Summary of statutory results for the period

For the six months ended 30 June (Unaudited)	2023 £m	2022 £m	Change
Operating income[3]	**488.5**	275.0	77.6%
Interest expense and similar charges	**(200.5)**	(56.8)	(253.0%)
Net operating income	**288.0**	218.2	32.0%
Administrative expenses	**(106.7)**	(94.9)	(12.4%)
Impairment losses on financial assets	**(33.4)**	(16.7)	(100.0%)
Provisions	**(12.8)**	(0.2)	(n/a[4])
Total operating expenses	**(152.9)**	(111.8)	(36.8%)
Statutory profit before tax	**135.1**	106.4	27.0%
Tax	**(34.8)**	(27.7)	(25.6%)
Statutory profit after tax	**100.3**	78.7	27.4%

[1] Capital and leverage metrics are shown on a transitional basis after applying IFRS 9 transitional arrangements. A comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 44.

[2] Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. Risk-weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

[3] Includes interest income calculated using the effective interest rate method, other interest and similar income, net operating lease income, net fee and commission income, net gains on derecognition of financial assets measured at amortised cost, net gains/(losses) on derivative financial instruments and hedge accounting and net other operating (expense)/income.

[4] The percentage change here is not comparable and irrelevant to the reader as it is an outlier change.

Financial review

Reconciliation of underlying to statutory results

For the six months ended 30 June (Unaudited)	2023 £m	2022 £m
Underlying profit before tax	**149.3**	111.4
Underlying adjustments		
Corporate activity costs	**(2.8)**	
Timeshare provision charge	**(11.4)**	
Strategic review	**–**	(5.0)
Total underlying adjustments	**(14.2)**	(5.0)
Statutory profit before tax	**135.1**	106.4

The following adjustments have been excluded from the underlying results:

- **Corporate activity costs:** represents costs incurred in H1 2023 directly relating to the acquisition of Bluestone Mortgages Limited (see Note 7 of the Interim Financial Statements).
- **Timeshare provision charge:** represents the provision charge recognised in H1 2023 in relation to complaints from customers about holiday ownership (timeshare) products (see Note 19 of the Interim Financial Statements).
- **Strategic review:** represents costs incurred in H1 2022 in relation to a strategic review undertaken with regard to the Group's ownership.

Additional reconciliation from underlying to statutory results is provided in Note 8 of the Interim Financial Statements.

Financial review

Financial commentary

Enhanced profitability driven by net interest margin improvement and careful cost management, impacted by provision for historical timeshare loans

Underlying profit before tax increased by 34% to £149.3 million for the period (30 June 2022: £111.4 million), with net operating income increasing by 32% to £288.0 million (30 June 2022: £218.2 million), underlying administrative expenses increasing by 16% to £103.9 million (30 June 2022: £89.9 million) and impairment losses increasing to £33.4 million (30 June 2022: £16.7 million). Statutory profit before tax was £135.1 million (30 June 2022: £106.4 million) an increase of 27% impacted by provisions of £12.8 million (30 June 2022: £0.2 million). The provision primarily relates to historical timeshare loans where we are pursuing multiple routes of recovery.

During the period, statutory net operating income increased to £288.0 million reflecting loan book growth of £1.4 billion, bringing the loan book to £11.9 billion following continued strong originations in our core SME and property markets. Loan book growth in the period includes £0.3 billion of growth attributable to loans acquired as part of the acquisition of BML, which completed in May 2023. Our gross asset yield increased to 8.9% (30 June 2022: 6.3%[1]), as we repriced our portfolios reflecting Bank of England base rate increases and changes in the portfolio mix.

As per our accounting disclosures for effective interest rate (EIR) methodology, we do not recognise future increases in loan interest income from reversion rates increasing after the maturity of the loan fixed rate period. The customer loan book of £11.9 billion is disclosed net of deferred EIR balances of £30 million, which relates to arrangement fees, broker commissions and early redemption charges recognised over the expected behavioural life of the loan book and is periodically adjusted for changes in actual and expected customer repayment behaviour.

Our overall funding costs increased during the period, reflecting growth in customer deposits and the increase in Bank of England base rate with the total liability yield increasing to 3.6% (30 June 2022: 1.3%). Overall the net interest margin increased to 5.2% (30 June 2022: 5.0%[2]).

Investing in and strengthening our data capabilities and innovative technology solutions across the business remains a core focus, as we believe this will further support and enhance our customer and distribution propositions and drive operational efficiency. Underlying administrative expenses increased to £103.9 million (30 June 2022: £89.9 million). This increase of 16% reflects continued investment in our digital strategy, one month of BML operating costs post-acquisition and higher staff costs reflecting increased headcount to support our growth strategy.

As detailed in Note 19 we have recognised a statutory provision of £12.8 million (30 June 2022: £0.2 million), this primarily reflects the best estimate of probable outflows associated with historical timeshare claims. Discussions are ongoing with the Financial Ombudsman Service in relation to finalising redress methodology and we expect substantial reimbursement in future. We continue to engage with the Financial Ombudsman Service and defend our position where we assess that the claims are without merit.

The underlying cost to income ratio improved to 36.6% (30 June 2022: 41.3%) and the management expenses ratio improved to 1.9% (30 June 2022: 2.1%).

Robust management of our loan book supported by prudent risk appetite

Careful and robust management of our loan book remains a priority in the current macroeconomic outlook. After reviewing the economic scenario weightings used in the impairment models, we retained the weightings applied at 31 December 2022, with downside risk scenarios representing 50% probability (downside plus severe downside scenarios combined).

Impairment losses on financial assets for the period were £33.4 million (30 June 2022: £16.7 million) reflecting a cost of risk of 61 bps (30 June 2022: 38 bps). This increase reflects loan book growth and changes in expected credit loss models driven by our conservative macroeconomic assumptions, but credit risk metrics remain stable and within risk appetite with the arrears ratio stable at 1.9%[3] (31 December 2022: 1.9%). We remain committed and ready to support those customers impacted by the recent rate rises and ongoing inflationary pressures.

Conservative capital management and funding diversification provide the foundation for future growth

Our Common Equity Tier 1 capital ratio reduced to 12.2% (31 December 2022: 12.7%[4]) and our total capital ratio to 14.8% (31 December 2022: 15.6%[4]). The decrease in the total capital ratio over the period is largely attributable to the growth in risk-weighted assets of £901.3 million following the acquisition of BML. Risk-weighted assets at 30 June 2023 include £218.8 million (31 December 2022: £128.6 million) of counterparty credit risk and credit valuation adjustment in respect of over-the-counter interest rate swap derivatives within our funding structured entities. During the second half of the year, we are working to materially reduce the counterparty credit risk and credit valuation adjustment risk-weighted assets through collateralisation of our over-the-counter derivatives positions.

The increase in risk-weighted assets is partially offset by the increase in retained earnings. The transitional arrangements for IFRS 9 increase both the Common Equity Tier 1 capital ratio and total capital ratio by 0.2% (31 December 2022: 0.3%).

1 Excluding gain on sale, gross yield was 6.1%.
2 Excluding gain on sale, net interest margin was 4.8%.
3 Loans that are equal to or greater than two payments in arrears (includes all term expired).
4 Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. Risk-weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

Financial review

The Group's current total capital requirement is 9.07% (Pillar 2A requirement of 1.07%) and with total regulatory capital of £1,234.1 million, the Group remains comfortably above regulatory requirements and is well capitalised to support our chosen specialist lending markets. We continue to optimise our capital resources while maintaining a robust and prudent risk appetite.

The Group is not required to comply with the Prudential Regulation Authority leverage ratio framework, however the Group maintains its returns with prudent levels of leverage. As at 30 June 2023, the leverage ratio for the Group is 8.1% (31 December 2022: 8.7%[1]), compared to minimum requirement of 3.25%. Risk-weighted assets as a proportion of the loan book is 70% (31 December 2022: 71%).

We continue to diversify our funding base, and remain predominantly funded by retail and SME customers. Against an increasingly competitive market, our strong savings proposition continues to attract new customers with deposits growing 22% on an annualised basis to £12.1 billion. Wholesale funding is primarily through the Bank of England's TFSME programme which remained stable with drawn balances of £1.2 billion. During 2023, we also completed a further fully retained securitisation of £0.7 billion of property assets, providing further capital and liquidity benefits to the Group.

Outlook
We continue to closely monitor the UK economy and macroeconomic environment to ensure that we can actively support our customers, where needed, through these uncertain times. We are specialists in the markets we operate in and have repeatedly demonstrated that we can respond quickly to meet our customers' needs, whilst maintaining our prudent risk appetite. The Group has a strong capital and liquidity base and we are confident in our ability to continue to meet the changing needs of our customers, colleagues and business partners in the future.

[1] Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. Risk-weighted assets have increased by £80.6 million to £7,463.1 million and the capital and leverage ratios have also been restated to reflect these adjustments.

Business review
Our diversified product offering

Enterprise franchise

Real Estate
Supports the UK property sector through a range of diverse commercial and residential mortgage products offered to professional landlords, investors and homeowners.

- Buy-to-let
- Bridging finance
- Commercial investment
- Second charge mortgages

£5.5bn loan book

SME
Supports UK SMEs by providing a range of debt-based financing solutions through the following business units:

- Digital SME lending
- Corporate lending
- Structured finance
- Development finance

£2.7bn loan book

Consumer franchise

Consumer Lending
Provides unsecured personal lending to consumers for multiple purposes through a range of partners and direct through its digital proposition.

- Unsecured personal loans
- Partner finance

£0.5bn loan book

Savings
Provides a wide range of savings solutions with competitive interest rates including easy access, notice and fixed term accounts and fixed cash ISAs.

- Personal savings
- Business savings

£12.1bn deposits

Retail Mortgage Brands

The Mortgage Lender Limited and Bluestone Mortgages Limited
Support customers through residential mortgage products with more complex income profiles, including the self-employed, entrepreneurs and first time buyers, as well UK landlords with a range of specialist buy-to-let products.

- Owner occupied mortgages
- Buy-to-let

£3.1bn loan book[1]

Key metrics and a review of each reportable segment is provided in the following pages. Additional financial information regarding the performance of each reportable segment can also be found in Note 8 of the Interim Financial Statements.

1 Excluding the acquisition of BML, the Retail Mortgage Brands loan book was £2.8 billion.

Business review

Enterprise franchise: Real Estate

Introduced by CPC Finance, a Strategic Partner broker, this digital buy-to-let case completed in just six days, helping another professional property investor to act fast on an opportunity to expand their property portfolio.

Julie Griggs, Director at CPC Finance:
"It was a simple, efficient and seamless journey for both the client and ourselves. Shawbrook have invested in their digital journey and it continues to benefit us through reducing the time taken on a manual application and allowing us to provide answers and information to our clients at speed."

Performance:

- Annualised loan book growth of 21% to £5.5 billion.
- Gross asset yield of 8.3%.
- Real Estate represents 46% of the Group's total loan book.

The impact of the market turbulence we saw in October 2022 continued into 2023. Our strategy throughout has been to continue providing liquidity to the specialist real estate markets we serve by maintaining a comprehensive product offering, whilst responding to base rate increases and subsequent adjustments to rental yields and capital values. By adjusting specific price points and underwriting criteria, we have maintained a consistent presence in the market and continued to originate selectively, with applications exceeding expectations during H1 2023.

Our focus on delivering excellent customer experiences remains a strategic priority. As well as deploying deep expertise across our markets to enhance our offering for more complex transactions, we continued to accelerate our digital proposition to create efficiencies for simpler, smaller ticket business. Ongoing engagement with our brokers endorsed our decision to stay open for business. This dialogue with our brokers will continue to help shape further product and service enhancements in the pipeline for the second half of the year.

Enhancing our customer proposition through thoughtful investments and process improvements

- Accelerated the delivery of our digital buy-to-let proposition, leveraging the benefits of automated information gathering, credit rules and property valuations to both speed up the mortgage borrowing process and create a simpler customer journey.
- Completed the launch of our commercial investment product onto the MyShawbrook portal, providing brokers with a digital and more efficient application process.
- Completed the first formal buy-to-let offer through our Shawbrook 'Colleague Hub' in June 2023, digitalising processes to maximise the time available for our underwriters to make valuable lending decisions.
- Launched a new credit reference agency tool, which will provide us with more valuable insights into early warning indicators, enabling a better understanding of credit performance trends for facilities held outside of Shawbrook.
- Hosted a webinar in conjunction with the National Association of Commercial Finance Brokers, building on our successful research paper 'Confronting the EPC Challenge'. Helping to keep our brokers informed on how they can support their landlord customers through the changing regulatory landscape.

Outlook

The UK real estate market has experienced significant volatility since the pandemic, initially resulting in high levels of demand and, more recently, a reduction in activity driven by the rising rate environment. To date, our customers have proven resilient in managing these challenges, and we will continue to utilise digital and open banking data to enhance our portfolio monitoring capabilities, flex our credit risk appetite relative to the prevailing macroeconomic environment and continue to support our customers.

As the professional real estate market responds to these changes, we remain alert to the opportunities that will emerge for Shawbrook and will leverage our expertise and digital capabilities to engineer the specialist funding solutions the sector will increasingly seek out. The breadth of our offering across multiple customer segments provides us with optionality to maximise opportunities even where overall demand may soften as interest rate volatility continues into H2 2023.

Business review

Enterprise franchise: SME

Queen's Park Equity (QPE) required funding to acquire YayYay Limited (Yay), a cloud-based communications services that enable micro business and SMEs to access enterprise level telephony solutions at an affordable price-point.

Jonny Kay, Managing Partner at QPE:

"We are delighted to be able to add Yay to our portfolio of exciting businesses operating in the tech services sector. The technology they have developed is second-to-none in their field, possessing the potential to assist thousands of scaling businesses globally.

"The Shawbrook team were an obvious choice for us thanks to their extensive knowledge of the sector as well as their ability to adapt their package to a borrower's need. We thank them for all their hard work on this deal."

Performance:

- Annualised loan book growth of 10% to £2.7 billion.
- Gross asset yield of 11.5%.
- SME represents 23% of the Group's total loan book.

Recognising that speed, flexibility and certainty are the things that matter the most to our customers, we continued to utilise technology to automate where it makes sense, helping to streamline the customer journey, improve operational efficiencies and enhance our risk environment. The benefits provided by our investments in digital and data to date, alongside our specialist relationship model, resulted in the continuation of strong new lending volumes in H1 2023.

Enhancing our customer proposition through thoughtful investments and process improvements

- Continued investment in our end-to-end customer and colleague journey via our originate platform, using our auto-decisioning tool to provide a slicker experience for our digital SME lending customers.
- Developed a unique 'Annual Recurring Revenue' product to support an underserved portion of the UK sponsors technology market. Aimed at serving those who have consistent recurring revenues, the new product, which will be launched in H2 2023, complements our existing Unitranche and Venture Debt offering well.
- Further strengthened our portfolio management teams to drive long-term partner value, including the introduction of a new 'middle office' function to support efficient service delivery to our structured finance customers.
- Leveraged data analytics and our non-performing loan capabilities to maintain the strong and robust management of our existing client portfolio.
- Enhanced the use of open banking data to support both improved decision making and more seamless customer journeys.

Outlook

The challenging macroeconomic environment continues to create a heightened need for specialist finance. This creates attractive opportunities for us to broaden our offering, while utilising technology and our expert teams to provide enhanced credit risk management and excellent customer experiences.

Long-standing relationships are key to our success. As a result, we will continue to explore additional ways of delivering end-to-end customer value and extend our offering to support our customers to scale their businesses and achieve their own long-term goals.

Business review

Consumer franchise: Consumer Lending

"The whole experience from start to finish was without a doubt the most enjoyable I've ever had. The staff were super excellent and very helpful. I would highly recommend them for their professional approach and friendly service, 5 stars."

5 star personal loan customer review – TrustPilot

Performance:

- Annualised loan book growth of 15% to £0.5 billion.
- Gross asset yield of 11.2%.
- Consumer Lending represents 5% of the Group's total loan book.

H1 2023 saw a notable increase in demand for our data-driven consumer lending proposition, resulting in an impressive uplift in the number of total customer applications received across our unsecured personal lending proposition. However, the prevailing macroeconomic conditions driven by inflationary pressures continued to exert strain on consumers income and savings. As a result, we continued to optimise our prudent affordability calculations, including adjustments made to reflect the latest Office for National Statistics assumptions, to effectively manage the potential impact of increased inflation on new and existing customers.

As an organisation that seeks to protect our customers and promote favourable outcomes, we continued to embed the Financial Conduct Authority's new Consumer Duty across the business. As well as ensuring its principles are ingrained within the Group's culture, we continued to adapt our customer journeys, including a full review of all customer communications, implementation of additional support channels and the roll out of additional customer service training.

Enhancing our customer proposition through thoughtful investments and process improvements

- Accelerated the integration of open banking data and utilised our marketplace partnerships to gain greater access to enriched customer insights.
- Extended the benefits of our digital origination workflow platform to our partner finance proposition. The new platform supports onboarding of new partners and their oversight, with the increased automation providing further processing efficiencies to offer a smoother customer journey.
- Implemented a new budgeting tool within our online lending portal, allowing our consumer lending customers to inform us of their financial position and request a new repayment schedule, reflecting core Consumer Duty considerations.
- Introduced a dedicated customer experience forum to monitor and collect valuable customer insights, which will be used to influence our proposition and drive continuous improvement.

Outlook

Looking ahead we plan to expand our current proposition to offer flexible finance to a wider customer group. To make credit decisions faster, more flexible and efficient, we will implement a new decisioning tool. Utilising machine learning and artificial intelligence alongside data, the new tool will provide us with the capabilities to further develop our decisioning models and internal processes, to create an ecosystem where our customers continue to be fairly served.

The depth of our total addressable market remains significant and as the macroeconomic uncertainty persists, this opens up increasing opportunities to consciously extend our footprint into adjacent markets that match our prudent risk appetite.

Business review

Consumer franchise: Savings

"Many thanks for your email below concerning the closing of my late partner's ISA account which has been dealt with very quickly indeed. May I also thank you for the sensitivity shown by you and your colleagues in Shawbrook's bereavement team which is greatly appreciated."

Savings customer review

Performance:

- Annualised growth in total customer deposits of 22% to £12.1 billion.
- Customer numbers increased by 16% from FY 2022 to c.262,000.
- Retail deposits currently make up 86% of the Group's total funding.

To support the Group's lending and maintain our strong liquidity position, the rigorous management of our retail deposit portfolio remained a strategic priority. In response to the market volatility and further increases in the Bank of England base rate, we continued to closely monitor pricing across both our front and back book to ensure our rates remained competitive within the best-buy-tables, while maintaining our financial discipline.

Despite the market backdrop, our strong brand, attractive rates, digital proposition and expert interactions continued to drive strong inflows in deposits, with balances increasing by 11% in the first six months of the year to £12.1 billion. The overwhelming majority of our customers balances are protected by the Financial Services Compensation Scheme given we do not offer more than £85,000 in our easy access offering.

Throughout H1 2023, we invested in targeted multi-channel marketing activity, leveraging our brand and diversified product offering to help attract a record number of new customers. This growing capability to distribute direct to consumers through digital channels compliments our ability to acquire new customers through third party platforms and digital marketplaces.

Enhancing our customer proposition through thoughtful investments and process improvements

- Continued to build out our new digital savings experience. This introduces enhanced self-service functionality to our customers and automated processes for our colleagues, to create a more streamlined savings proposition.
- Automated our ISA e-transfer process by eliminating unnecessary manual interventions to improve process efficiency, resulting in a reduction in time to funding for ISA transfers.
- Improved our existing customer bereavement process, designed to reduce the emotional burden on impacted family members. Enhancements included the introduction of a dedicated customer bereavement team and a Group-wide policy that incorporates the Financial Conduct Authority's Consumer Duty considerations to encourage the consistent application of best practice.

Outlook

To balance deposit growth, maximise customer retention and maintain pricing efficiency in a volatile environment, we will continue to leverage digital and data to enhance the Shawbrook savings experience.

To increase Shawbrook's footprint in the retail savings market, we will continue to deliver a targeted marketing strategy, while exploring additional opportunities to expand our partnership network and product offering to provide further diversification of funding.

Business review

Retail Mortgage Brands

"My firm had a case from a small builder where the build had been delayed and could no longer get an extension to the offer. It could not be replaced because of the Help-to-Buy scheme under which the offer was made. The builder did manage to get National House Building Counsel at the very last moment, meaning the reinspection had to be done with hardly any notice. My business development team at TML were amazing however, getting everything turned around extremely quickly and within the timelines. My client and I were extremely relieved, thank you TML."

Ros Whytock – Mortgages First

Retail Mortgage Brands is comprised of our subsidiary entities, The Mortgage Lender (TML) and Bluestone Mortgages Limited (BML).

Performance:

- Annualised loan book growth of 60%[1] to £3.1 billion.
- Gross asset yield of 6.8%.
- Retail Mortgage Brands represents 26% of the Group's total loan book.

The Mortgage Lender (TML)

TML's 'real-life lending' proposition remained in high demand throughout H1 2023, with our solid reputation and strong digital capabilities supporting continued growth. To ensure the future quality of the book was protected against the volatile rate environment impacting the UK mortgage market, we continued to strengthen our portfolio monitoring capabilities, with access to new data sources providing greater insight into credit risk, allowing us to proactively identify potentially vulnerable customers and improve how we monitor key risk measures.

We made further progress in the evolution of our proposition, enhancing the customer and broker experience through increased digitalisation and deepening of relationships with our broker network. Intelligent use of digital and data is key to our strategy, to eliminate, simplify and automate where possible. Ongoing system and process improvements continued throughout H1 2023, with important enhancements delivered to benefit our customers, partners, and overall operational effectiveness.

Enhancing its customer proposition through thoughtful investments and process improvements

- Upgraded our mortgage origination platform, introducing a raft of significant improvements including processing efficiencies and capability to launch new product features, benefiting both intermediaries and customers.
- Enhanced our customer relationship management ecosystems, with further automated journeys implemented and integrations into our origination platform delivered.
- Introduced auto-decisioning capabilities across the customer application processes, helping to streamline the customer journey and reduce application times by up to 15%.

Outlook

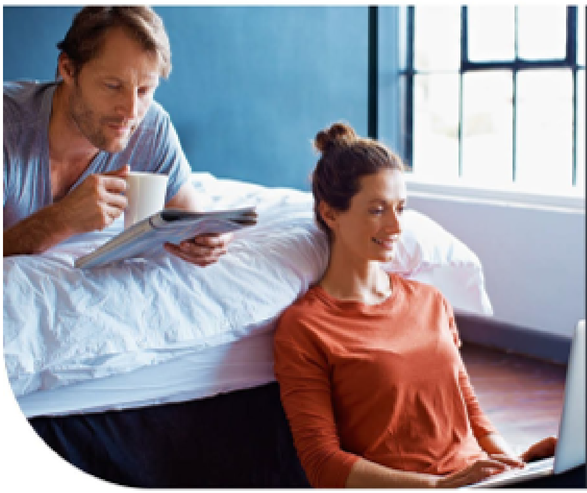
The volatile UK mortgage market continues to create a greater need to provide real-life lending solutions to those with complex needs. To cater for these shifting dynamics, we will continue to evolve our TML proposition, providing more optionality to support our existing customers throughout their lending journey.

The additional digital investments in the pipeline for H2 2023, including the introduction of automated valuation models and automated income verification, will help us to deliver further operational efficiencies and provide excellent customer experiences.

[1] Excluding the acquisition of BML, the loan book was £2.8 billion, representing an annualised growth rate of 36%.

Business review

Bluestone Mortgages Limited (BML)



"Great turnaround time, always available to help. Proactive approach rather than reactive which makes the application process so much easier for advisers like me. Business development managers and underwriters have been in touch and I love the system where I can simply leave a message for the case manager or underwriter with any query, comments, updates. 100% success rate with my cases so far."

5 star broker review – TrustPilot

The acquisition of BML in May 2023 demonstrates a continuation of the Group's ability to identify complementary acquisitions that enables us to deepen our total addressable market and extend our footprint into segments we know well. BML is a respected name in the specialist UK mortgage market and a brand that fits well within the Group, given its shared 'best of both' approach. We are confident that we can use our combined capabilities and scale to deliver an even stronger proposition to homeowners across the UK.

In H1 2023, our BML proposition continued to build on its proven track record of providing brokers with innovative lending solutions to meet their customers' unique financial needs, particularly those who are self-employed, have complex income structures or credit histories.

Application flow remained strong during the period, with a solid new business pipeline going into H2 2023.

Enhancing our proposition through thoughtful investments and service delivery

- Launched our new digital origination platform, introducing increased automation to streamline the customer journey and provide greater operational capacity, helping to free up underwriters time to manage the more complex cases.
- Continued to deliver excellent customer service, with our enhanced tasking and workflow capabilities helping us to achieve a material reduction in time to offer and overall completion times for brokers and customers.
- Introduced open banking data, alongside a series of additional APIs, into the customer lending journey to enhance the user experience.

Outlook

Significant long-term growth in the specialist UK mortgage market is expected, driven by an increasing number of people choosing to work for themselves or in sectors where incomes are complex. To respond to these opportunities and meet this growing demand, we will continue to embrace the power of technology and our expert teams to deliver an exceptional service in the complex credit space.

Now supported by the Group's additional capabilities and funding stability, we are well-positioned to continue powering our impressive growth trajectory and further scaling our innovative lending proposition to an increasing number of customers.

Interim Risk Report

The Interim Risk Report provides information about Shawbrook Group plc and its subsidiaries (together, the 'Group').

The Interim Risk Report is a condensed report that is designed to provide an update on significant changes and developments since the last annual report. Accordingly, it should be read in conjunction with the Risk Report in the Group's 2022 Annual Report and Accounts, which is available on the website at: **www.shawbrook.co.uk/investors**

Approach to risk management

The Group seeks to manage the risks inherent in its business activities and operations through close and disciplined risk management. This aims to quantify the risks taken, manage and mitigate them as far as possible and price for them in order to produce an appropriate commercial return through the cycle.

The Group's approach to risk management continues to evolve in response to changes in the business model and the products offered, changes in the way customers want to engage with the Group, as well as external changes and developments such as ongoing challenges resulting from the rising cost of living.

During the first half of 2023, notable activities and changes regarding risk management include the following:

- The annual review of the Group's Risk Management Framework and risk appetite were approved in February 2023 and April 2023, respectively.
- Continued investment has been made by the Group in its risk management capability. This has included a reorganisation within the second line of defence to bring operational risk, assurance and third-party risk oversight together under the newly created role of Group Director of Operational Risk and Assurance. In addition, MI (management information) and analytics were brought together under the Group Risk Management Director.
- The Group completed the acquisition of Bluestone Mortgages Limited following regulatory approval on 31 May 2023. Launched in 2014, Bluestone Mortgages Limited is a well-established brand in the UK specialist residential mortgage market, working with a large network of brokers to support customers that do not fit the traditional profile of high street banks.
- The Group has continued to evolve its environmental, social, and governance (ESG) strategy, focusing on those areas in which it can deliver the greatest impact. The Group has further developed its climate strategy to support its customers' transition to a low carbon future, reduce its climate impact and embed climate risk into the Group's DNA.
- Enhancements to the Group's financial crime control environment have continued. All originations now pass through a financial crime and compliance platform, and the MI suite has been enhanced. Following appointment of the new Money Laundering Reporting Officer, the handover of the senior management function 'SMF17 - Money Laundering Reporting Function' was completed in March 2023.
- The Group has continued to work on 'Consumer Duty', delivering key product reviews against the rules by 30 April 2023 and management attestation of substantive compliance with the regulation was provided to the Board in July 2023.
- The Group has continued to invest in risk technology and MI as a primary source of control. This has included the delivery of a cloud-native version of its analytical system and progress in implementing a new governance, compliance and risk tool, which is designed to bring risks, controls, and assurance into a single ecosystem shared by all lines of defence.
- Model risk is a key area of focus for the Group, with further investment in resources to support the development of a road map and activities to embed the new model risk management principles for banks. Although the Group does not have permission to use its internal models to calculate regulatory capital requirements, it supports the aim of strengthening its controls around the use of models.
- Continued investment in the development of the Group's internal audit function.
- While the Group was not directly impacted by the cyber-attack on MOVEit in June 2023, two of the Group's print and post service suppliers were impacted, resulting in a number of customer letters potentially being included in the data breach. The Group invoked its Cyber Incident Management team and have worked through a number of key actions to support the impacted customers, including a Credit Industry Fraud Avoidance System protective registration. The Group has also engaged with the Information Commissioner's Office and the Financial Conduct Authority. There has been no further evidence of any compromise and third parties have confirmed that recommended patching actions have been implemented.
- Considerable economic uncertainty has remained throughout the first half of 2023, with the rise in the cost of living, the underlying elevated level of core inflation, elevated interest rates, the conflict in Ukraine and the potential for supply chain disruption. These matters all require careful monitoring to identify any associated risks that need to be addressed. This continues to be monitored through a specifically designed set of early warning indicators.
- In response to the ongoing changes in the economic environment, the Group continues to maintain a focus on affordability, ensuring its models and policies remain appropriate and closely aligned to customer behaviour. The Group has continued to conduct regular portfolio reviews, with the benefit of external information to ensure that its risk appetite remains appropriate.

Top and emerging risks

The Group's top and emerging risks are considered regularly by the Group Risk Management Committee and subsequently by the Risk Committee.

Top risks are those risks that could cause the delivery of the Group's strategy, results of operations, financial condition and/or prospects to differ materially from expectations.

Emerging risks are those that have unknown components, the impact of which could crystallise over a longer period and could include certain other factors beyond the Group's control, including escalation of terrorism or global conflicts, natural disasters, epidemic outbreaks and similar events.

As at 30 June 2023, the top and emerging risks identified by the Group are unchanged from those identified and disclosed in the Group's 2022 Annual Report and Accounts. This includes nine top risks and no emerging risks.

The nine themes identified as top risks are as follows:

- Economic and competitive environment
- Credit impairment
- Geopolitical risk
- Intermediary, outsourcing and operational resilience
- Information and cyber security risk
- Pace of regulatory change
- Pace, scale of change and people risk
- Financial crime
- Climate risk

Full details of each top risk, including how they could impact the Group's strategy or business model and how they are managed, are set out in the Group's 2022 Annual Report and Accounts starting on page 101. Updates regarding each top risk are provided below:

Economic and competitive environment

So far, the UK has avoided a technical recession, helped by an improved outlook for energy processes and continued tightness in the labour market. Growth remains weak by historical standards, with UK GDP 0.5% lower than the pre-COVID-19 level in December 2019. CPI inflation is falling, but at a slower pace than implied by movements in energy prices. Elevated core inflation, services price inflation and pay growth all point to a more persistent underlying price pressure. Households and businesses have been adjusting to higher prices and interest rates by curbing consumption and investment. Although inflation is set to continue to fall in the near term, borrowing costs will likely remain higher for longer, further depressing activity. There are downside risks to the outlook, given the ongoing stickiness of inflation, recent tensions in the banking system, the uncertain impact of such a rapid rise in interest rates on the UK economy and the potential for worsening geopolitical tensions.

Credit impairment

Prolonged high levels of core inflation continue to impact consumers disposable income and input prices for SMEs. Despite arrears levels remaining stable, the Group believes that there is the potential for increased levels of credit impairment. In response, the Group has continued to ensure that its affordability policy remains appropriate, that it continues to review its early warning indicators and external insights to support its lending appetite and that there is sufficient capacity to manage any potential increase in arrears or potential problem loans. The Group also continues to monitor its portfolios using its 'Vision' tool, its proprietary monitoring system.

Geopolitical risk

There has been no change in the level of geopolitical risk, which remains heightened and uncertain. The conflict between Russia and Ukraine, as well as the resulting supply chain issues and possible Brexit-related changes to the Northern Ireland protocol, continue to be contributing factors to the uncertainty. The Group continues to ensure all important business services are operationally resilient in the event of geopolitical uncertainty.

Intermediary, outsourcing and operational resilience

The Group continues to evidence compliance with the requirements of SS2/21 'Outsourcing and third party risk management', with a particular focus on stressed exit plans for its material suppliers. The Group has also engaged with its key third parties to understand whether they have any exposure to the MoveIt vulnerability and ensured that appropriate actions were taken, including patching.

Information and cyber security risk

The Group continues to take a holistic approach to information and cyber security risk management, managing controls aligned to the 'Adaptive Security Architecture' and its key activities of prevent, detect, respond and predict. The Group will continue to invest in the quality and resiliency of its technology, people and process controls in each of these areas to drive the continuous improvement of the Group's information security posture. Particular focus has been applied to control effectiveness and testing to ensure objective assurance of control operation.

Pace of regulatory change

The pace of regulatory change remains a key focus area for the Group. The Group's compliance function continues to play a key role in identifying and overseeing the implications of regulatory change and are being supported by the implementation of an automated solution for horizon scanning and regulatory change management. The set-up stage is complete and a pilot is expected to commence in early Q3 2023. This solution is intended to sharpen the focus on the relevant changes through automation and enabling analysis and suitable MI.

Top and emerging risks

Pace, scale of change and people risk
The Group continued to maintain a positive employee engagement score in the most recent survey conducted in May 2023 of 84% (Nov 2022: 82%).

Financial crime
Enhancements to the financial crime control environment has continued to be a key focus area. Key developments during the period include all originations now passing through a financial crime and compliance platform; completion of the back book load for the Consumer Lending loan book; outbound payments screening for sanctions moved from 'pass through' to blocking; and enhancements being made to the MI suite. In addition, the SMF17 handover was completed in March 2023, following the appointment of the new Money Laundering Reporting Officer.

Climate risk
The Group delivered its inaugural Task Force on Climate-Related Financial Disclosures (TCFD) Report alongside its 2022 Annual Report and Accounts. This included testing the resiliency of its strategy and business model using the 'Late Action' scenario as published in the 2021 Climate Biennial Scenario. This was the first time the Group had completed a quantitative scenario analysis for climate change, including a macroeconomic, physical and transition risk assessment.

The Group has a clear plan for 2023, focusing on the SME business within the Enterprise franchise to develop the capability to assess lending emissions, including customer engagement to determine where the Group can help its customers. Work is underway to embed the use of a climate portal into credit underwriting teams.

Principal risks

Principal risks refer to the key risks that the Group is exposed to. Policy and control frameworks are maintained to support principal risks and provide guidance on how to achieve strategic objectives whilst managing the risk within defined risk appetite limits.

The following table provides a summary of the Group's principal risks and their definitions and signposts to where additional information can be found in the Group's 2022 Annual Report and Accounts:

Principal risk	Definition	Cross reference to Group's 2022 Annual Report and Accounts
Credit risk	The risk that a borrowing client or treasury counterparty fails to repay some, or all, of the capital or interest advanced to them, due to lack of willingness to pay and/or lack of ability to pay.	Page 112
Liquidity risk	The risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.	Page 140
Market risk	The risk of financial loss through unhedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.	Page 144
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events.	Page 147
Compliance, conduct and financial crime risk	Conduct risk: the risk that the Group's behaviour will result in poor customer outcomes and that the Group's people fail to behave with integrity. Compliance and financial crime risk: the risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice, or that the Group's processes may be used to commit financial crime.	Page 148
Strategic risk	The risk that the Group is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to generate lending volumes within the Group's risk appetite.	Page 148
Systems and change risk	Systems risk: the risk that new threats are introduced to the Group's critical systems resulting in them becoming unavailable during core operational times. Change risk: the risk that transition changes in the business will not be supported by appropriate change capability and be improperly implemented. It is also the risk that too many in-flight changes cause disruption to business operations.	Page 148

The following sections provide additional information and updates for the first half of 2023 for each principal risk.

Principal risks: Credit risk

During the period, the Group has made some changes to the way in which it manages portfolio risk with the inclusion of a series of early warning indicators and the use of 'Vision', the Group's proprietary monitoring tool, in support of fortnightly portfolio reviews.

The following sections provide additional information and analysis regarding the key areas that are monitored in relation to credit risk. This includes information about the impairment of financial assets; exposure to credit risk; concentrations of credit risk and forbearance.

(a) Impairment of financial assets

To reflect the potential losses that the Group might experience due to credit risk, the Group recognises impairment provisions on its financial assets in the financial statements. Impairments are calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes.

The Group calculates ECLs and recognises a 'loss allowance' in the statement of financial position for its financial assets measured at amortised cost and at fair value through comprehensive income (FVOCI) and for its loan commitments.

The measurement and calculation of ECLs is detailed in the Group's 2022 Annual Report and Accounts starting on page 113. During the first half of 2023, there have been no notable changes to the methodology applied in calculating ECLs and the Group continues to make judgemental adjustments to modelled ECLs to ensure the loss allowance recognised adequately reflects the expected outcome.

The following sections provide additional information regarding the loss allowance recognised in the statement of financial position, details about judgemental adjustments applied to modelled ECLs and updates regarding the critical accounting judgements and estimates associated with the impairment of financial assets.

Analysis of the loss allowance recognised

The following table provides a summary of the loss allowance recognised in the statement of financial position in relation to each financial asset class. Except where noted, the loss allowance is recognised as a deduction from the gross carrying amount of the asset.

			30 Jun 2023 (Unaudited)			31 Dec 2022 (Audited)
	Modelled ECL £m	**Judgemental adjustments (See page 29) £m**	**Total £m**	Modelled ECL £m	Judgemental adjustments (See page 29) £m	Total £m
Cash and balances at central banks	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Loans and advances to banks	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Loans and advances to customers at amortised cost	**126.7**	**3.7**	**130.4**	105.0	6.8	111.8
Loans and advances to customers at FVOCI (recognised in FVOCI reserve)	**4.4**	**0.5**	**4.9**	2.4	–	2.4
Investment securities	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Loan commitments (recognised as a provision)	**2.6**	**–**	**2.6**	0.5	–	0.5
Total loss allowance recognised	**133.7**	**4.2**	**137.9**	107.9	6.8	114.7

For loans and advances to customers at amortised cost and loans and advances to customers at FVOCI, additional analysis is provided starting on page 24 and 27, respectively.

For cash and balances at central banks, loans and advances to banks and investment securities, the loss allowance is immaterial, totalling less than £0.1 million in both reported periods. All assets within these asset categories are in Stage 1.

For loan commitments, the £2.6 million loss allowance as at 30 June 2023 comprises £1.6 million in Stage 1, £0.8 million in Stage 2 and £0.2 million in Stage 3 (31 December 2022: £0.5 million comprised of £0.3 million in Stage 1 and £0.2 million in Stage 3). The loss allowance on loan commitments is recognised as a provision in the statement of financial position (see Note 19 of the Interim Financial Statements). The increase in the loss allowance of £2.1 million is recognised in the statement of the profit and loss within impairment losses on financial assets and represents the net ECL charge for the period (see Note 12 of the Interim Financial Statements).

Principal risks: Credit risk

Additional analysis of loans and advances to customers at amortised cost
For loans and advances to customers at amortised cost, the loss allowance is £130.4 million (31 December 2022: £111.8 million). The loss allowance is recognised as a deduction from the gross carrying amount of the asset (see Note 14 of the Interim Financial Statements).

The following tables provide an analysis of loans and advances to customers at amortised cost by lending segment[1] and the period-end stage classification:

	Enterprise				
As at 30 June 2023 (Unaudited)	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
Stage 1	**4,946.3**	**2,329.7**	**521.1**	**996.7**	**8,793.8**
Stage 2	**623.4**	**326.0**	**42.7**	**176.1**	**1,168.2**
Stage 3[2]	**179.4**	**87.1**	**6.3**	**78.0**	**350.8**
Gross carrying amount	**5,749.1**	**2,742.8**	**570.1**	**1,250.8**	**10,312.8**
Stage 1	**(8.2)**	**(18.5)**	**(14.6)**	**(2.7)**	**(44.0)**
Stage 2	**(6.9)**	**(14.6)**	**(7.6)**	**(0.9)**	**(30.0)**
Stage 3[2]	**(23.1)**	**(26.0)**	**(5.0)**	**(2.3)**	**(56.4)**
Loss allowance	**(38.2)**	**(59.1)**	**(27.2)**	**(5.9)**	**(130.4)**
Carrying amount[3]	**5,710.9**	**2,683.7**	**542.9**	**1,244.9**	**10,182.4**
Loss allowance coverage					
Stage 1	**0.2%**	**0.8%**	**2.8%**	**0.3%**	**0.5%**
Stage 2	**1.1%**	**4.5%**	**17.8%**	**0.5%**	**2.6%**
Stage 3	**12.9%**	**29.9%**	**79.4%**	**2.9%**	**16.1%**
Total loss allowance coverage	**0.7%**	**2.2%**	**4.8%**	**0.5%**	**1.3%**

	Enterprise				
As at 31 December 2022 (Unaudited) (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Stage 1	4,470.0	2,299.6	487.0	1,022.9	8,279.5
Stage 2	535.6	224.5	38.1	99.1	897.3
Stage 3[2]	149.0	84.0	4.4	50.5	287.9
Gross carrying amount	5,154.6	2,608.1	529.5	1,172.5	9,464.7
Stage 1	(6.8)	(19.7)	(14.1)	(2.6)	(43.2)
Stage 2	(3.7)	(11.6)	(6.7)	(0.6)	(22.6)
Stage 3[2]	(16.4)	(23.5)	(3.5)	(2.6)	(46.0)
Loss allowance	(26.9)	(54.8)	(24.3)	(5.8)	(111.8)
Carrying amount[3]	5,127.7	2,553.3	505.2	1,166.7	9,352.9
Loss allowance coverage					
Stage 1	0.2%	0.9%	2.9%	0.3%	0.5%
Stage 2	0.7%	5.2%	17.6%	0.6%	2.5%
Stage 3	11.0%	28.0%	79.5%	5.1%	16.0%
Total loss allowance coverage	0.5%	2.1%	4.6%	0.5%	1.2%

1 Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

2 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £31.5 million, of which £14.8 million relates to Real Estate, £0.5 million to SME and £16.2 million to Retail Mortgage Brands (31 December 2022: £19.8 million; £16.0 million Real Estate, £0.7 million SME and £3.1 million Retail Mortgage Brands). The associated loss allowance is £4.3 million, of which £4.6 million relates to Real Estate and a £0.3 million net impairment gain in Retail Mortgage Brands (31 December 2022: £3.6 million; £3.5 million Real Estate and £0.1 million Retail Mortgage Brands).

3 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

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

As at 30 June 2023 (Unaudited)	**Loan receivables £m**	**Finance lease receivables £m**	**Instalment credit receivables £m**	**Total £m**
Stage 1	**8,397.6**	**29.1**	**367.1**	**8,793.8**
Stage 2	**1,149.8**	**1.7**	**16.7**	**1,168.2**
Stage 3[1]	**336.0**	**1.6**	**13.2**	**350.8**
Gross carrying amount	**9,883.4**	**32.4**	**397.0**	**10,312.8**
Stage 1	**(42.3)**	**(0.2)**	**(1.5)**	**(44.0)**
Stage 2	**(28.4)**	**(0.1)**	**(1.5)**	**(30.0)**
Stage 3[1]	**(48.8)**	**(0.9)**	**(6.7)**	**(56.4)**
Loss allowance	**(119.5)**	**(1.2)**	**(9.7)**	**(130.4)**
Carrying amount[2]	**9,763.9**	**31.2**	**387.3**	**10,182.4**
Loss allowance coverage				
Stage 1	**0.5%**	**0.7%**	**0.4%**	**0.5%**
Stage 2	**2.5%**	**5.9%**	**9.0%**	**2.6%**
Stage 3	**14.5%**	**56.3%**	**50.8%**	**16.1%**
Total loss allowance coverage	**1.2%**	**3.7%**	**2.4%**	**1.3%**

As at 31 December 2022 (Audited)	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	7,894.2	34.5	350.8	8,279.5
Stage 2	880.0	2.7	14.6	897.3
Stage 3[1]	269.5	2.5	15.9	287.9
Gross carrying amount	9,043.7	39.7	381.3	9,464.7
Stage 1	(41.2)	(0.2)	(1.8)	(43.2)
Stage 2	(21.1)	(0.1)	(1.4)	(22.6)
Stage 3[1]	(37.3)	(1.7)	(7.0)	(46.0)
Loss allowance	(99.6)	(2.0)	(10.2)	(111.8)
Carrying amount[2]	8,944.1	37.7	371.1	9,352.9
Loss allowance coverage				
Stage 1	0.5%	0.6%	0.5%	0.5%
Stage 2	2.4%	3.7%	9.6%	2.5%
Stage 3	13.8%	68.0%	44.0%	16.0%
Total loss allowance coverage	1.1%	5.0%	2.7%	1.2%

1 Stage 3 loan receivables include 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £31.5 million (31 December 2022: £19.8 million) and a loss allowance of £4.3 million (31 December 2022: £3.6 million).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table provides an analysis of movements in the loss allowance associated with loans and advances to customers at amortised cost during the six months ended 30 June 2023. The table is compiled by comparing the position at the end of the period to that at the beginning of the period. Transfers between stages are deemed to have taken place at the start of the period, with all other movements shown in the stage in which the asset is held at the end of the period. Where loans have been added (including originations, purchases and acquisitions through business combinations) or removed (including derecognitions and disposals) during the period, the full period movement is reflected on the relevant addition/disposal row.

Six months ended 30 June 2023 (Unaudited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
As at 1 January 2023	**43.2**	**22.6**	**46.0**	**111.8**
Net ECL charge for the period				
Transfer from Stage 1	**(3.0)**	**2.7**	**0.3**	**–**
Transfer from Stage 2	**2.3**	**(4.4)**	**2.1**	**–**
Transfer from Stage 3	**0.5**	**1.1**	**(1.6)**	**–**
New financial assets originated or purchased	**10.2**	**3.0**	**0.5**	**13.7**
Financial assets derecognised (excluding disposals)	**(7.2)**	**(3.8)**	**(5.1)**	**(16.1)**
Changes in credit risk[1]	**(2.0)**	**8.8**	**15.6**	**22.4**
Net ECL charge for the period	**0.8**	**7.4**	**11.8**	**20.0**
Other movements				
Other adjustments	**–**	**–**	**(1.4)**	**(1.4)**
Total other movements	**–**	**–**	**(1.4)**	**(1.4)**
Total movement in loss allowance	**0.8**	**7.4**	**10.4**	**18.6**
As at 30 June 2023	**44.0**	**30.0**	**56.4**	**130.4**

The net ECL charge for the period represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 12 of the Interim Financial Statements). An analysis of this charge/(credit) by lending segment[2] is provided in the following table.

For the six months ended 30 June (Unaudited)	**2023 £m**	2022 (Restated)[2] £m
Real Estate	**12.7**	0.5
SME	**4.3**	6.0
Consumer Lending	**2.9**	5.2
Retail Mortgage Brands	**0.1**	1.3
Net ECL charge for the period	**20.0**	13.0

The higher net ECL charge in the current period is predominantly attributable to growth in the loan book (including loans acquired as part of the Bluestone Mortgages Limited acquisition), along with updated valuations, particularly in commercial investment where property prices fell in Q4 2022. This was partially offset by the reduction in the cost of living post-model adjustment (PMA) (see page 29).

1 Changes in credit risk includes changes resulting from net changes in lending (including repayments, additional drawdowns and accrued interest) and changes resulting from adjustments to the models used in the calculation of ECLs (including model inputs and underlying assumptions).

2 Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Principal risks: Credit risk

Movements in the gross carrying amount of loans and advances to customers at amortised cost during the six months ended 30 June 2023 are shown in the following table. The table is compiled using the same methodology as described for the loss allowance movement table on the previous page.

Six months ended 30 June 2023 (Unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2023	**8,279.5**	**897.3**	**287.9**	**9,464.7**
Movements in gross carrying amount				
Transfer from Stage 1	**(496.9)**	**468.1**	**28.8**	**–**
Transfer from Stage 2	**290.0**	**(352.2)**	**62.2**	**–**
Transfer from Stage 3	**9.2**	**12.3**	**(21.5)**	**–**
New financial assets originated or purchased	**1,727.1**	**261.0**	**38.1**	**2,026.2**
Financial assets derecognised (excluding disposals)	**(945.4)**	**(94.8)**	**(36.5)**	**(1,076.7)**
Net changes in lending[1]	**(69.7)**	**(23.5)**	**(8.2)**	**(101.4)**
Total movement in gross carrying amount	**514.3**	**270.9**	**62.9**	**848.1**
As at 30 June 2023	**8,793.8**	**1,168.2**	**350.8**	**10,312.8**

Additional analysis of loans and advances to customers at FVOCI

For loans and advances to customers at FVOCI, the loss allowance is £4.9 million (31 December 2022: £2.4 million). The loss allowance does not reduce the carrying amount of these assets, which remain at fair value. Instead, the loss allowance is recognised in the FVOCI reserve.

The following table provides an analysis of loans and advances to customers at FVOCI by period-end stage classification. All FVOCI loans are attributable to the Retail Mortgage Brands lending segment[2] and all represent mortgage loan receivables.

	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Stage 1	**1,769.5**	1,285.4
Stage 2	**212.0**	28.8
Stage 3	**9.8**	2.2
Carrying amount[3]	**1,991.3**	1,316.4
Stage 1	**(3.9)**	(1.9)
Stage 2	**(0.6)**	(0.3)
Stage 3	**(0.4)**	(0.2)
Loss allowance	**(4.9)**	(2.4)
Loss allowance coverage		
Stage 1	**0.2%**	0.1%
Stage 2	**0.3%**	1.0%
Stage 3	**4.1%**	9.1%
Total loss allowance coverage	**0.2%**	0.2%

1 Net changes in lending includes repayments, additional drawdowns and accrued interest.

2 This is based on the revised lending segments as detailed on pages 58 and 59. Prior to this change, FVOCI loans were attributable to Real Estate and TML Mortgages. Following the changes to lending segments, all FVOCI loans are now included in the new 'Retail Mortgage Brands' segment.

3 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table provides an analysis of movements in the loss allowance associated with loans and advances to customers FVOCI during the six months ended 30 June 2023. The table is compiled by comparing the position at the end of the period to that at the beginning of the period. Transfers between stages are deemed to have taken place at the start of the period, with all other movements shown in the stage in which the asset is held at the end of the period. Where loans have been added (including originations, purchases and acquisitions through business combinations) or removed (including derecognitions and disposals) during the period, the full period movement is reflected on the relevant addition/disposal row.

Six months ended 30 June 2023 (Unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2023	1.9	0.3	0.2	2.4
ECL charge for the period				
Transfer from Stage 1	–	–	–	–
Transfer from Stage 2	–	(0.1)	0.1	–
Transfer from Stage 3	–	0.1	(0.1)	–
New financial assets originated or purchased	1.1	0.1	–	1.2
Financial assets derecognised (excluding disposals)	(0.1)	(0.1)	(0.1)	(0.3)
Changes in credit risk[1]	1.0	0.3	0.3	1.6
Net ECL charge for the period	2.0	0.3	0.2	2.5
As at 30 June 2023	3.9	0.6	0.4	4.9

The net ECL charge for the period represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 12 of the Interim Financial Statements).

The higher net ECL charge in the current period is predominantly attributable to growth in the loan book due to originations and loans acquired as part of the Bluestone Mortgages Limited acquisition. Changes in the economic outlook included within the calculation of ECLs is another contributory factor.

Movements in the carrying amount of loans and advances to customers at FVOCI (excluding fair value adjustments for hedged risk) during the six months ended 30 June 2023 are shown in the following table. The table is compiled using the same methodology as described for the loss allowance movement table above.

Six months ended 30 June 2023 (Unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2023	1,285.4	28.8	2.2	1,316.4
Movements in carrying amount				
Transfer from Stage 1	(87.7)	82.2	5.5	–
Transfer from Stage 2	0.5	(3.5)	3.0	–
Transfer from Stage 3	0.7	0.5	(1.2)	–
New financial assets originated or purchased	622.2	48.8	–	671.0
Financial assets derecognised (excluding disposals)	(8.1)	(0.4)	(0.7)	(9.2)
Change in fair value	19.7	2.4	0.1	22.2
Net change in lending[2]	(63.2)	53.2	0.9	(9.1)
Total movements in carrying amount	484.1	183.2	7.6	674.9
As at 30 June 2023	1,769.5	212.0	9.8	1,991.3

1 Changes in credit risk includes changes resulting from net changes in lending (including repayments, additional drawdowns and accrued interest) and changes resulting from adjustments to the models used in the calculation of ECLs (including model inputs and underlying assumptions).

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

Principal risks: Credit risk

Judgemental adjustments to modelled ECLs

Limitations in the models used to calculate ECLs may be identified through the ongoing performance monitoring and assessment and validation of the outputs from the models. Consequently, in certain circumstances, the Group makes judgemental adjustments to the modelled output to ensure the overall loss allowance recognised adequately reflects the risk in the portfolio.

Judgemental adjustments take the form of post-model adjustments (PMAs) and overlays:

- **Post model adjustments:** PMAs are calculated at a granular level through data driven analysis to take into account particular attributes of the portfolio that have not been adequately captured by the models.
- **Overlays:** overlays are adjustments to the modelled outputs that do not meet the definition of a PMA. These include adjustments that are not calculated through modelled or data driven analysis.

All judgemental adjustments are carefully monitored and are reviewed and approved at least every six months at the Group Impairment Committee and the Audit Committee, along with other key impairment judgements. Where appropriate judgemental adjustments are incorporated into future model development.

In the current environment, judgemental adjustments have the potential to significantly impact the loss allowance recognised and involve the application of significant management judgement. Accordingly, judgemental adjustments to modelled ECLs continue to be identified as an area of critical judgement (see page 30).

In both reported periods, the Group has specifically considered the impact of the increase to cost of living and the increase in interest rates, as the Group's models have not been trained over a comparable period in these areas. To reflect this, a cost of living PMA has been applied in both reported periods, as summarised and quantified below. There were no other PMAs or overlays applied.

The cost of living PMA in both reported periods reflects the refinance risk to a higher interest rate for high risk loans in the Real Estate and Retail Mortgage Brands segments that are maturing in the following 12 month period, increased input prices and supply issues within SME and affordability risk in Consumer Lending. The PMA is applied to customers with a similar risk profile. Further detail regarding the calculation is provided in the Group's 2022 Annual Report and Accounts, starting on page 116.

In the current period, the cost of living PMA in all lending segments reduced. The reduction in the Real Estate and Retail Mortgage Brands PMA reflects an updated approach that considers the lifetime probability of default (PD) rather than Stage 2 coverage, which is deemed to increase accuracy. The reduction in the SME PMA reflects a more targeted PMA based on customer and sector risk. The reduction in the Consumer Lending PMA reflects a smaller segment of customers potentially exposed to affordability risk with six-months more performance information.

As at 30 June 2023, the cost of living PMA has all been assigned to Stage 1 given the forward-looking nature of the risks on affordability driven by higher inflation and refinance risk given higher interest rates. The PMA recognised as at 31 December 2022 was also all assigned to Stage 1.

	30 Jun 2023 (Unaudited)					31 Dec 2022 (Unaudited) (Restated)[1]				
	Real Estate £m	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Cost of living PMA	**0.2**	**2.4**	**0.6**	**1.0**	**4.2**	1.1	3.2	1.1	1.4	6.8
Total judgemental adjustments to modelled ECLs	**0.2**	**2.4**	**0.6**	**1.0**	**4.2**	1.1	3.2	1.1	1.4	6.8

[1] Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

Principal risks: Credit risk

Critical judgements relating to the impairment of financial assets

The measurement of ECLs requires the Group to make a number of judgements. The judgements that are considered to have the most significant effect on the amounts in the financial statements are unchanged to those identified in the Group's 2022 Annual Report and Accounts and include:

- assessing whether there has been a significant increase in credit risk (SICR) from initial recognition (resulting in the financial asset being transferred to Stage 2);
- determining whether a financial asset is in default or is credit-impaired (resulting in the financial asset being transferred to Stage 3); and
- determining whether a financial asset is 'cured' (and is therefore reclassified back to a lower stage).

These judgements have an impact upon the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised.

The impairment of cash and balances at central banks, loans and advances to banks, investment securities and loan commitments is immaterial. As such, the area where these judgements have the most significant effect specifically relates to the impairment of loans and advances to customers.

Additional details regarding information used and considerations applied when making these judgements are provided in the Group's 2022 Annual Report and Accounts starting on page 124. There are no notable updates or changes to report for the current period.

A further area of judgement that is considered to have a significant effect on amounts in the financial statements is the application of judgemental adjustments to modelled ECLs. Judgemental adjustments are applied to the modelled ECL amount when the Group judges that the modelled ECL does not adequately reflect the expected risk in the portfolio, or where there is a risk that the model cannot be expected to pick up based on previous experience. Details of judgemental adjustments to the modelled ECL are provided on page 29.

Critical accounting estimates relating to the impairment of financial assets

The calculation of ECLs requires the Group to make a number of assumptions and estimates. The key assumptions and estimates that, depending on a range of factors, could result in a material adjustment in the next financial period are unchanged to those identified in the Group's 2022 Annual Report and Accounts (see page 127). Specifically, this relates to the forward-looking economic scenarios used in the calculation of ECLs and the probability weightings applied to these scenarios, along with the key inputs and assumptions used in the ECL models. Updates on these matters are set out below

The impairment of cash and balances at central banks, loans and advances to banks, investment securities and loan commitments is immaterial. As such, the area where the assumptions and estimates set out below could have the most significant impact specifically relates to the impairment of loans and advances to customers.

Forward-looking information

In both reported periods the Group has used four forward-looking economic scenarios: a base case (central view), an alternative upside scenario, an alternative moderate downside scenario and an alternative severe downside scenario. Scenarios are developed based on the information available at the time (which may differ to actual outcomes).

As at 30 June 2023, the economic scenarios used reflected the Group's expectations based on the information available at the time. Assumptions embedded in the scenarios included: consideration that households and businesses face the residual impact of the cost of living crisis, higher taxes and more income being spent on debt service costs. GDP was expected to nominally avoid recession in 2023, before slightly contracting in 2024. Labour market resilience confines the rise in the unemployment rate to 4.4% by early 2024. Inflation was expected to be back on target during Q4 2024, provided energy prices do not spike again. Interest rates were expected to rise to 5.25% in Q3 2023, remaining there until Q4 2023, before slowly falling back to a neutral rate of 2.25%. Given the impact of rising interest rates on affordability, house prices were expected to fall 8.6% from their peak by Spring 2024. The downside scenario assumed persistent rises in inflation, contractions in investment, and house price falls of 15%. The severe downside scenario assumed more problems in the financial sector and a severe credit crunch.

This is in contrast to the economic scenarios used as at 31 December 2022, which reflected the expectation that the UK economy would enter a shallow recession in all scenarios. The scenarios incorporated the elevated interest rate environment present at the time and the expectation that interest rates would remain elevated for longer, that there would be high inflation, and the potential for a fall in house prices as increased interest rates reduced affordability, particularly for first-time buyers.

Principal risks: Credit risk

A summary of the economic assumptions used at each reporting period end are provided in the following tables:

As at 30 June 2023 (Unaudited)		**2023**	**2024**	**2025**	**2026**	**2027**
GDP – % average change year-on-year	Base	**0.0%**	**1.1%**	**2.2%**	**2.4%**	**1.9%**
	Upside	**0.4%**	**2.8%**	**2.8%**	**2.3%**	**1.8%**
	Downside	**(0.5%)**	**(1.3%)**	**2.9%**	**3.6%**	**1.9%**
	Severe downside	**(0.9%)**	**(3.0%)**	**2.5%**	**4.7%**	**2.4%**
Bank Rate (%)	Base	**4.50%**	**4.00%**	**3.25%**	**2.75%**	**2.25%**
	Upside	**4.50%**	**3.25%**	**2.75%**	**2.25%**	**2.25%**
	Downside	**5.00%**	**4.50%**	**4.00%**	**3.25%**	**2.75%**
	Severe downside	**5.50%**	**5.25%**	**5.00%**	**4.25%**	**3.25%**
UK Unemployment (%)	Base	**4.3%**	**4.4%**	**4.2%**	**4.1%**	**4.1%**
	Upside	**3.5%**	**3.7%**	**3.9%**	**3.9%**	**3.9%**
	Downside	**4.5%**	**5.9%**	**5.4%**	**4.7%**	**4.5%**
	Severe downside	**4.9%**	**7.7%**	**7.0%**	**5.4%**	**5.0%**
Consumer Price Index – % change year-on-year	Base	**3.9%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
	Upside	**2.9%**	**1.0%**	**2.0%**	**2.0%**	**2.0%**
	Downside	**5.5%**	**3.5%**	**2.0%**	**2.0%**	**2.0%**
	Severe downside	**7.3%**	**8.5%**	**2.1%**	**2.0%**	**2.0%**
UK Residential House Price Index – % change year-on-year	Base	**(7.9%)**	**(1.1%)**	**4.0%**	**3.8%**	**3.6%**
	Upside	**(2.2%)**	**7.5%**	**3.8%**	**3.5%**	**3.2%**
	Downside	**(8.2%)**	**(5.7%)**	**(0.9%)**	**3.7%**	**4.0%**
	Severe downside	**(10.4%)**	**(12.6%)**	**(2.1%)**	**6.5%**	**5.1%**

As at 31 December 2022 (Audited)		2023	2024	2025	2026	2027
GDP – % average change year-on-year	Base	(1.1%)	1.8%	3.1%	3.3%	2.0%
	Upside	0.5%	3.1%	3.0%	3.0%	2.0%
	Downside	(1.7%)	0.7%	3.3%	3.3%	2.0%
	Severe downside	(3.0%)	(0.7%)	3.4%	4.5%	2.8%
Bank Rate (%)	Base	3.50%	2.75%	2.50%	2.25%	2.25%
	Upside	3.25%	2.50%	2.25%	2.25%	2.25%
	Downside	4.25%	3.75%	3.00%	2.25%	2.25%
	Severe downside	5.00%	4.75%	3.75%	2.75%	2.25%
UK Unemployment (%)	Base	4.8%	4.5%	4.1%	4.1%	4.1%
	Upside	3.5%	3.7%	3.9%	3.9%	3.9%
	Downside	5.7%	5.9%	4.9%	4.4%	4.4%
	Severe downside	6.9%	7.8%	6.2%	5.1%	4.7%
Consumer Price Index – % change year-on-year	Base	6.6%	2.0%	2.0%	2.0%	2.0%
	Upside	3.8%	2.0%	2.0%	2.0%	2.0%
	Downside	9.7%	2.2%	2.0%	2.0%	2.0%
	Severe downside	12.5%	6.2%	2.1%	2.0%	2.0%
UK Residential House Price Index – % change year-on-year	Base	(8.4%)	(0.3%)	3.7%	3.4%	3.6%
	Upside	3.4%	3.1%	4.3%	4.0%	3.6%
	Downside	(10.8%)	(3.9%)	0.6%	3.1%	3.6%
	Severe downside	(15.7%)	(10.4%)	4.3%	4.8%	3.9%

Principal risks: Credit risk

The probability weightings applied to the four economic scenarios used are as follows:

	30 Jun 2023 (Unaudited)	31 Dec 2022 (Audited)
Base	**40%**	40%
Upside	**10%**	10%
Downside	**35%**	35%
Severe downside	**15%**	15%

The Group discussed the development of the central view during the first half of 2023 and the view that in H2 2023 there should be more certainty that the base case is approaching the most likely scenario. Given the current uncertainty in the outlook, the Group decided to maintain the probability weightings used as at 31 December 2022 for the current reporting period.

The calculation of ECLs is sensitive to the assumptions made regarding the forward-looking scenarios used and the probability weightings applied. The Group performs sensitivity analysis to assess the impact that certain changes would have upon the loss allowance recognised on its loans and advances to customers. Loans and advances to customers at FVOCI are not currently included in this sensitivity analysis as the Group is developing its methodology to provide meaningful analysis. Sensitivity analysis therefore just looks at the impact of certain changes upon loans and advances to customers measured at amortised cost.

The following table shows the loss allowance as at 30 June 2023 for loans and advances to customers at amortised cost based on the probability-weighted multiple economic scenarios, as recognised in the statement of financial position, and the impact on this loss allowance if each individual forward-looking scenario was weighted at 100%.

In relation to the below analysis, in each of the scenarios, judgemental adjustments to modelled ECLs (see page 29) are assumed to be constant and have been added back into each of the scenarios.

As at 30 June 2023 (Unaudited)	**Probability-weighted loss allowance per statement of financial position £m**	**Increase/(decrease) in loss allowance if scenario weighted at 100%**			
		Base £m	**Upside £m**	**Downside £m**	**Severe downside £m**
Loans and advances to customers at amortised cost					
Real Estate and Retail Mortgage Brands[1]	**44.1**	**(3.4)**	**(11.0)**	**2.4**	**12.7**
SME	**59.1**	**(1.4)**	**(3.5)**	**1.1**	**4.3**
Consumer Lending	**27.2**	**(1.1)**	**(2.0)**	**0.6**	**3.4**
Total for loans and advances to customers at amortised cost	**130.4**	**(5.9)**	**(16.5)**	**4.1**	**20.4**

1 For the purpose of sensitivity analysis, Retail Mortgage Brands is grouped in with Real Estate while the Group develops its methodology.

Principal risks: Credit risk

Model estimations
ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The Group considers the key assumptions impacting the ECL calculation to be within the probability of default (PD) and loss given default (LGD). Sensitivity analysis is performed by the Group to assess the impact of changes in these key assumptions on the loss allowance recognised on its loans and advances to customers. Loans and advances to customers at FVOCI are not currently included in this sensitivity analysis as the Group is developing its methodology to provide meaningful analysis. Sensitivity analysis therefore just looks at the impact of certain changes upon loans and advances to customers measured at amortised cost.

A summary of the key assumptions and sensitivity analysis as at 30 June 2023 is provided in the following table.

Assumption	Sensitivity analysis (Unaudited)
PD	• A 10% increase in the PD for each customer would increase the total loss allowance on loans and advances to customers at amortised cost by £5.4 million.
LGD: Real Estate and Retail Mortgage Brands[1]	
• Property value	• A 10% absolute reduction in property prices would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate and Retail Mortgage Brands segments by £10.2 million.
• Forced sale discount	• A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate and Retail Mortgage Brands segments by £6.9 million.
LGD: SME	
• Absolute LGD value	• A 5% absolute increase in the LGD applied would increase the total loss allowance on loans and advances to customers at amortised cost in SME by £6.8 million.
LGD: Consumer Lending	
• Loss given charge-off	• A 10% absolute increase in the loss given charge-off would increase the loss allowance on loans and advances to customers at amortised cost in Consumer Lending by £3.3 million.

(b) Exposure to credit risk

Maximum exposure to credit risk
The following table presents the Group's maximum exposure to credit risk before taking into account any collateral held or other credit risk enhancements (unless such enhancements meet accounting offsetting enhancements).

For financial assets, the maximum exposure to credit risk is the carrying amount. For the purposes of this disclosure, fair value adjustments for hedged risk recognised on loans and advances to customers are not included. For loan commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Cash and balances at central banks	**1,949.5**	2,037.1
Loans and advances to banks	**434.3**	263.6
Loans and advances to customers at amortised cost	**10,182.4**	9,352.9
Loans and advances to customers at FVOCI	**1,991.3**	1,316.4
Investment securities	**718.2**	691.0
Derivative financial assets	**557.2**	330.7
Loan commitments	**1,600.0**	1,628.7
Maximum exposure to credit risk	**17,432.9**	15,620.4

[1] For the purpose of sensitivity analysis, Retail Mortgage Brands is grouped with Real Estate while the Group develops its methodology.

Principal risks: Credit risk

Credit risk grading

To assess exposure to credit risk, the Group has developed a credit risk grading system, as set out in the table below, which maps to a common master grading scale. This credit risk grading system is applied to the Group's financial assets for which a loss allowance is recognised, together with loan commitments. The grading system remains unchanged compared to that used in the year ended 31 December 2022 and consists of 25 grades on a master grading scale, reflecting varying degrees of risk and default.

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

The following information provides an analysis of the Group's exposures to credit risk by credit risk grade and period-end stage classification. The credit risk grade refers to the grades defined in the preceding table. The period-end stage classification refers to the IFRS 9 stage. It should be noted that the credit risk grading is a point-in-time assessment, whereas the period-end stage classification is determined based on the change in credit risk since initial recognition. As such, for non-credit impaired financial assets, there is not a direct relationship between the credit risk grade and stage classification.

For cash and balances at central banks, loans and advances to banks and investment securities, all exposures are graded as low risk and are in Stage 1 in both reported periods.

For loans and advances to customers at amortised cost and loan commitments, analysis is provided in the following tables. For loans and advances to customers at FVOCI, the Group is currently developing its credit grading model, consequently, credit grading information is not provided for these loans for this reporting period.

Loans and advances to customers at amortised cost				30 Jun 2023 (Unaudited)				31 Dec 2022 (Audited)
	Stage 1 £m	Stage 2 £m	Stage 3[1] £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3[1] £m	Total £m
Low risk	754.2	8.2	0.8	763.2	923.2	8.2	–	931.4
Medium risk	4,053.0	225.3	0.7	4,279.0	3,210.4	141.4	1.4	3,353.2
High risk	2,989.9	758.6	271.3	4,019.8	3,168.9	648.3	235.8	4,053.0
Ungraded[2]	996.7	176.1	78.0	1,250.8	977.0	99.4	50.7	1,127.1
Gross carrying amount	8,793.8	1,168.2	350.8	10,312.8	8,279.5	897.3	287.9	9,464.7
Loss allowance	(44.0)	(30.0)	(56.4)	(130.4)	(43.2)	(22.6)	(46.0)	(111.8)
Carrying amount[3]	8,749.8	1,138.2	294.4	10,182.4	8,236.3	874.7	241.9	9,352.9

				30 Jun 2023 (Unaudited)				31 Dec 2022 (Audited)
Loan commitments	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Low risk	1,023.2	–	–	1,023.2	986.6	–	–	986.6
Medium risk	237.5	9.4	–	246.9	302.5	–	–	302.5
High risk	268.6	50.8	10.5	329.9	280.9	57.0	1.7	339.6
Total amount committed	1,529.3	60.2	10.5	1,600.0	1,570.0	57.0	1.7	1,628.7

1 Stage 3 includes 'POCI' (purchased or originated credit-impaired) loans with a gross carrying amount of £31.5 million, of which £15.3 million is high risk and £16.2 million ungraded (31 December 2022: £19.8 million; £16.7 million high risk and £3.1 million ungraded). The associated loss allowance is £4.3 million (31 December 2022: £3.6 million).

2 For loans in Retail Mortgage Brands, the Group is developing its credit grading model. Loans that will be subject to the new grading methodology are classified as 'ungraded'.

3 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

(c) Concentrations of credit risk

A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group monitors concentrations of credit risk and implements limits on concentrations where necessary in order to mitigate and control credit concentration risk.

Additional analysis regarding concentrations of credit risk in relation to loans and advances to customers, the principal source of credit risk for the Group, is provided below. Amounts included in these tables present the combined carrying amount of the Group's loans and advances to customers at amortised cost and at FVOCI.

Concentrations of credit risk by geographic location

The following tables analyse the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and geographic location. The Group is predominantly a UK lender and continues to maintain a geographically diverse portfolio spanning across the UK. Outside of the UK, a small proportion of loans are attributable to counterparties domiciled in the Channel Islands, representing 0.2% of total loans (31 December 2022: 0.3% of total loans).

	Enterprise				
As at 30 June 2023 (Unaudited)	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
East Anglia	**155.0**	**114.4**	**20.2**	**128.3**	**417.9**
East Midlands	**271.1**	**148.2**	**35.9**	**214.1**	**669.3**
Greater London	**2,093.2**	**671.2**	**59.2**	**698.6**	**3,522.2**
Guernsey/Jersey/Isle of Man	**13.7**	**12.8**	**–**	**–**	**26.5**
North East	**110.1**	**36.9**	**29.2**	**102.7**	**278.9**
North West	**547.0**	**281.4**	**61.6**	**352.1**	**1,242.1**
Northern Ireland	**9.3**	**0.9**	**0.2**	**–**	**10.4**
Scotland	**284.3**	**64.4**	**64.9**	**237.7**	**651.3**
South East	**1,103.0**	**410.4**	**103.7**	**724.1**	**2,341.2**
South West	**358.1**	**360.9**	**44.6**	**205.7**	**969.3**
Wales	**139.4**	**75.3**	**27.0**	**107.8**	**349.5**
West Midlands	**339.6**	**244.6**	**48.2**	**236.1**	**868.5**
Yorkshire/Humberside	**287.1**	**262.3**	**48.2**	**229.0**	**826.6**
Carrying amount[2]	**5,710.9**	**2,683.7**	**542.9**	**3,236.2**	**12,173.7**

	Enterprise				
As at 31 December 2022 (Unaudited) (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
East Anglia	149.5	110.5	19.2	100.1	379.3
East Midlands	238.2	112.3	34.0	159.6	544.1
Greater London	1,914.8	670.6	54.6	517.9	3,157.9
Guernsey/Jersey/Isle of Man	16.1	13.1	–	–	29.2
North East	71.2	37.9	26.9	82.5	218.5
North West	461.6	281.2	58.0	271.2	1,072.0
Northern Ireland	6.0	1.0	0.2	–	7.2
Scotland	283.4	78.0	59.6	180.7	601.7
South East	979.6	349.2	97.2	562.9	1,988.9
South West	325.4	335.6	41.7	164.1	866.8
Wales	123.1	71.7	24.7	86.2	305.7
West Midlands	289.4	225.6	44.9	181.2	741.1
Yorkshire/Humberside	269.4	266.6	44.2	176.7	756.9
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk by loan size

The following tables present an analysis of the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and loan size. The Group continues to manage concentration risk through product caps, restricting large exposures to higher credit graded customers, and through specific risk appetite limits on exposure to larger counterparties. Loans with a carrying amount exceeding £25.0 million represents 2.6% of total loans (31 December 2022: 1.9% of total loans) and 64.0% of total loans have a carrying amount of less than £1.0 million (31 December 2022: 63.8% of total loans).

As at 30 June 2023 (Unaudited)	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
0 – £50k	135.2	30.7	542.4	36.3	744.6
£50k – £100k	355.4	41.5	0.5	364.2	761.6
£100k – £250k	1,062.2	83.9	–	1,589.3	2,735.4
£250k – £500k	1,222.9	103.5	–	964.0	2,290.4
£500k – £1.0 million	868.8	156.6	–	237.4	1,262.8
£1.0 million – £2.5 million	980.8	366.3	–	42.2	1,389.3
£2.5 million – £5.0 million	480.4	464.2	–	2.8	947.4
£5.0 million – £10.0 million	309.7	439.2	–	–	748.9
£10.0 million – £25.0 million	239.4	740.1	–	–	979.5
> £25.0 million	56.1	257.7	–	–	313.8
Carrying amount[2]	5,710.9	2,683.7	542.9	3,236.2	12,173.7

As at 31 December 2022 (Unaudited) (Restated)[1]	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
0 – £50k	140.2	31.3	504.9	32.4	708.8
£50k – £100k	354.8	38.4	0.3	288.1	681.6
£100k – £250k	1,022.7	91.4	–	1,207.3	2,321.4
£250k – £500k	1,134.1	106.7	–	738.0	1,978.8
£500k – £1.0 million	790.4	144.8	–	182.4	1,117.6
£1.0 million – £2.5 million	825.9	392.7	–	32.1	1,250.7
£2.5 million – £5.0 million	357.6	446.5	–	2.8	806.9
£5.0 million – £10.0 million	257.5	431.9	–	–	689.4
£10.0 million – £25.0 million	188.8	717.8	–	–	906.6
> £25.0 million	55.7	151.8	–	–	207.5
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk by industry
The following tables present an analysis of the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI by lending segment[1] and industry. The industry segmentation of the Group's loans and advances to customers remains focused on mortgages and real estate activities, which represents 71.1% of total loans (31 December 2022: 68.7% of total loans).

	Enterprise				
As at 30 June 2023 (Unaudited)	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Total £m**
Agriculture, forestry and fishing	**0.4**	**21.6**	**–**	**–**	**22.0**
Manufacturing	**2.5**	**216.9**	**–**	**–**	**219.4**
Transport, storage and utilities	**8.5**	**328.0**	**–**	**0.2**	**336.7**
Construction	**425.9**	**490.6**	**–**	**–**	**916.5**
Wholesale and retail trade	**13.1**	**197.6**	**–**	**–**	**210.7**
Real estate activities	**3,515.5**	**558.2**	**–**	**711.7**	**4,785.4**
Financial and insurance activities	**16.4**	**609.4**	**–**	**–**	**625.8**
Services and other	**104.6**	**256.5**	**–**	**0.9**	**362.0**
Personal:					
Mortgages	**1,346.7**	**4.8**	**–**	**2,523.4**	**3,874.9**
Other	**277.3**	**0.1**	**542.9**	**–**	**820.3**
Carrying amount[2]	**5,710.9**	**2,683.7**	**542.9**	**3,236.2**	**12,173.7**

	Enterprise				
As at 31 December 2022 (Unaudited) (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Total £m
Agriculture, forestry and fishing	0.2	16.5	–	–	16.7
Manufacturing	2.6	203.4	–	–	206.0
Transport, storage and utilities	7.0	266.9	–	0.2	274.1
Construction	386.0	460.1	–	–	846.1
Wholesale and retail trade	13.1	192.0	–	–	205.1
Real estate activities	3,026.0	553.0	–	523.7	4,102.7
Financial and insurance activities	20.3	600.3	–	–	620.6
Services and other	104.8	253.0	–	0.9	358.7
Personal:					
Mortgages	1,261.3	8.0	–	1,958.3	3,227.6
Other	306.4	0.1	505.2	–	811.7
Carrying amount[2]	5,127.7	2,553.3	505.2	2,483.1	10,669.3

1 Information is based on the revised lending segments as detailed on pages 58 and 59. Prior period comparatives have been restated accordingly, in which amounts have been reclassified from 'Real Estate' into the new 'Retail Mortgage Brands' segment.
2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

(d) Forbearance

The Group maintains a forbearance policy for the servicing and management of customers that are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. The Group's forbearance policy is outlined in the Group's 2022 Annual Report and Accounts starting on page 138 and is unchanged in the current period. The Group has a full suite of forbearance options available and these have remained the same in the period to 30 June 2023.

The following table provides a summary of the Group's forborne loans and advances to customers by lending segment and period-end stage classification. This includes both loans measured at amortised cost and those measured at FVOCI. For FVOCI loans, the gross carrying amount column represents the carrying amount of these loans (i.e. including fair value adjustments).

				30 Jun 2023 (Unaudited)				31 Dec 2022 (Audited)
As at 30 June 2023	**Number of loans**	**Gross carrying amount £m**	**Loss allowance recognised £m**	**Loss allowance coverage %**	Number of loans	Gross carrying amount £m	Loss allowance recognised £m	Loss allowance coverage %
Real Estate								
Stage 2	**136**	**9.1**	**(0.1)**	**1.1**	148	12.6	(0.1)	0.8
Stage 3	**475**	**45.9**	**(5.3)**	**11.5**	497	46.2	(3.8)	8.2
Real Estate total	**611**	**55.0**	**(5.4)**	**9.8**	645	58.8	(3.9)	6.6
SME								
Stage 2	**136**	**119.9**	**(4.9)**	**4.1**	122	68.4	(4.0)	5.8
Stage 3	**343**	**53.2**	**(10.9)**	**20.5**	450	43.6	(10.3)	23.6
SME total	**479**	**173.1**	**(15.8)**	**9.1**	572	112.0	(14.3)	12.8
Consumer Lending								
Stage 2	**156**	**0.7**	**(0.1)**	**14.3**	184	1.0	(0.2)	20.0
Stage 3	**680**	**2.8**	**(2.2)**	**78.6**	728	3.0	(2.4)	80.0
Consumer Lending total	**836**	**3.5**	**(2.3)**	**65.7**	912	4.0	(2.6)	65.0
Retail Mortgage Brands								
Stage 2	**62**	**10.4**	**<0.1**	**0.2**	–	–	–	–
Stage 3	**277**	**51.3**	**(2.0)**	**3.9**	–	–	–	–
Retail Mortgage Brands total	**339**	**61.7**	**(2.0)**	**3.2**	–	–	–	–
Group								
Stage 2	**490**	**140.1**	**(5.1)**	**3.6**	454	82.0	(4.3)	5.2
Stage 3	**1,775**	**153.2**	**(20.4)**	**13.3**	1,675	92.8	(16.5)	17.8
Group total	**2,265**	**293.3**	**(25.5)**	**8.7**	2,129	174.8	(20.8)	11.9

Principal risks: Liquidity risk

During the period, there have been no significant changes or developments in relation to liquidity risk and its management.

The following section provides updates regarding key metrics that are used by the Group in assessing and monitoring liquidity risk.

Metrics used in assessing and monitoring liquidity

Liquidity buffer

The Group maintains a liquidity buffer of high quality liquid assets, as defined by the European Banking Authority's mandates and adopted by the Prudential Regulation Authority (PRA). These assets can be monetised to meet stress requirements in line with internal stress testing and the requirements of the Delegated Regulation on the Liquidity Coverage Ratio (LCR).

The composition of the Group's liquidity buffer is as follows:

(Unaudited)	30 Jun 2023 £m	31 Dec 2022 £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	**1,912.9**	2,004.3
Central government assets (LCR level 1 assets)	**233.5**	–
Extremely high quality covered bonds (LCR level 1 assets)	**445.7**	453.6
High quality covered bonds (LCR level 2A assets)	–	9.0
Asset backed securities (LCR level 2B assets)	**26.3**	13.5
Total liquidity buffer	**2,618.4**	2,480.4

Liquidity coverage ratio

The LCR is a regulatory metric that measures a set of standardised liquidity inflows and outflows over a period of 30 days. The Group calculates the LCR in accordance with the European Banking Authority's LCR standards, as adopted by the PRA.

(Unaudited)	30 Jun 2023	31 Dec 2022
Liquidity buffer (£m)	**2,618.4**	2,480.4
Total net cash outflows (£m)	**791.8**	772.1
Liquidity coverage ratio (%)	**330.7**	321.3

Net stable funding ratio

The net stable funding ratio (NSFR) is a regulatory metric that measures the amount of stable funding available compared to the amount of stable funding required. The revised Capital Requirements Regulation (CRR II) requires that the NSFR remains above a minimum level of 100%. The Group's NSFR remains above this required level, with a ratio of 144.7% as at 30 June 2023 (31 December 2022: 145.6%).

Principal risks: Market risk

During the period, there have been no significant changes or developments in relation to market risk and its management.

Principal risks: Operational risk

During the period, enhancements were made to the operational resiliency of the Group by ensuring all Group functions had business continuity plans in place, with ongoing testing to ensure they meet time-critical service expectations. The Group has made progress in enhancing its internal control framework and has invested in employees with expertise in operational risk and internal controls to mature in this area. The Group has also invested in technology with a new governance, risk and control tool, which is due to be launched in Q4 2023. This will facilitate monitoring, assessment and reporting of risks, controls, and assurance in one single tool.

The Group continues to operate within important business service impact tolerances, demonstrating sustained resilience levels. The focus remains on enhancement of regulatory objective activities, introducing risk to safety and soundness impact tolerance volume-based measures aligned to risk appetite, enabling better monitoring of disruption impact and therefore reacting faster to recover services. The embedding of service mapping and incident management activities into important business service owned teams is complete and the plan is on track for other activities to follow in the second half of 2023. The Group has developed an enhanced and adaptable scenario testing schedule for 2023 and 2024, improving on the approach from 2022, to test all severe but plausible scenarios, assess resilience capabilities and invest where required to operate within impact tolerances by 31 March 2025.

Principal risks: Compliance, conduct and financial crime risk

During the period, work has continued towards completing identified enhancements to the financial crime framework through the Group's established programme. The focus of the programme in H1 2023 has been upon embedding the controls and delivering assurance on their effectiveness. An internal audit of the implementation is due to take place in Q3 2023. The period has also seen the continuation of various initiatives and activities in advance of the Financial Conduct Authority's 'Consumer Duty' proposals, which were implemented on 31 July 2023.

The Group is aware of the potential impacts that increased cost of living pressures may have upon its customers. In response, the Group has reviewed the management of various associated conduct risks, with changes being made to the Group's affordability models, forbearance capabilities, and approach to vulnerable customers.

The Group continues to undertake reviews of its compliance with the Consumer Credit Act and other conduct regulations. During 2023, the Group undertook a judicial review of a Financial Ombudsman Service final decision in a complaint brought by a timeshare customer. While the Group was ultimately unsuccessful in its challenge, the court found that the Financial Ombudsman Service made a number of errors of law in reaching its final decision and concluded that each complaint must be considered on its own individual facts. Based on the information available at the reporting date, the Group has recognised a provision of £11.4 million reflecting the best estimate of probable outflows associated with timeshare claims (see Note 19 of the Interim Financial Statements).

Principal risks: Strategic risk

During the period, the Group completed its first TCFD Report and conducted scenario analysis of its strategy and business model using the 'Late Action' scenario published by the PRA as part of the 2021 Climate Biennial Scenario. The Group approved its ESG strategy and climate risk road map for 2023. The Group also acquired Bluestone Mortgages Limited to extend its presence in the specialist first charge residential mortgage market. In respect of funding, the Group developed its digital savings capability with a read only application that will be launched to customers in Q4 2023.

Principal risks: Systems and change risk

During the period, the Group continued to invest in technology change, embedding the Product and Engineering Model to deliver the Group's digital product strategy to make it simpler and faster for brokers and customers to do business with the Group. Key enhancements include the launch of our Colleague Hub, an automated solution that streamlines the end-to-end underwriting process for digital buy-to-let products. Additionally, development continues on the Group's digital savings initiative, with a phased customer launch expected to start in Q4 2023.

Technology and data continue to remain a core competency for the Group, building on the strong capabilities and foundations in place. The Group continues to invest in this area and, during the period, has further invested in risk related data analytics and portfolio monitoring tools. The Mortgage Lender Limited, one of the Group's subsidiary companies, has performed a major upgrade of its originations and servicing platform and is in the process of moving to the Cloud environment. Additional investment in modernising other core internal applications has also taken place in order to continue to enhance resiliency.

Capital risk and management

Capital risk is the risk that the Group has insufficient quantity and quality of capital to cover regulatory requirements and/or to support its own growth plans. Capital risk is a component of strategic risk, which is one of the Group's principal risks (see page 22). Exposure to capital risk could arise due to a depletion of the Group's capital resources as a result of the crystallisation of any of the risks to which it is exposed or an increase in minimum capital requirements.

Capital risk and its management are detailed in the Group's 2022 Annual Report and Accounts starting on page 149.

The following section provides relevant updates for the six months ended 30 June 2023.

Managing capital risk

Management of capital risk is described on page 149 of the Group's 2022 Annual Report and Accounts. This sets out the Group's methods and key objectives for managing capital risk and how the Group is supervised by its regulators. There have been no changes of note in the management of capital risk in the six months ended 30 June 2023.

Regulatory requirements

The Group applies the regulatory framework defined by the revised Capital Requirements Regulation (CRR II) and the Capital Requirements Directive (CRD V). Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

Minimum requirements set out by the regulatory framework are unchanged compared to 31 December 2022 and are summarised in the following table:

Minimum capital requirements	Common Equity Tier 1	Total capital
Pillar 1	4.50%	8.00%
Pillar 2A	0.60%	1.07%
Total Capital Requirement	5.10%	9.07%
Regulatory capital buffers		
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	1.00%	1.00%
Overall Capital Requirement	8.60%	12.57%

Additional systemic buffers provided for by CRD V do not apply to the Group.

The regulatory minimum for the UK leverage ratio also remains unchanged compared to 31 December 2022 at 3.25%. Whilst the Group is not required to comply with the PRA's UK Leverage Ratio Framework until its retail deposits exceed the £50 billion threshold, the PRA has stated its expectation that all UK firms should manage their leverage risk so that the ratio does not ordinarily fall below 3.25%. Consequently, the Group treats 3.25% as its minimum requirement.

The Group maintains an adequate capital base and has complied with all externally imposed requirements throughout the period, with capital adequacy and leverage ratios remaining well in excess of minimum regulatory requirements.

Regulatory developments

During the six months ended 30 June 2023, there have been no regulatory changes that have come into effect that impact upon the Group's minimum capital requirements.

Future regulatory changes that are relevant to the Group are as follows:

- In March 2022, the PRA confirmed that revisions to the Standardised Approach (Basel 3.1) will come into effect from 1 January 2025. An additional consultation paper was published in November 2022, CP16/22 'Implementation of the Basel 3.1 standards', which covers the parts of the Basel III standards that remain to be implemented in the UK. The Group has conducted an initial impact assessment to ascertain potential impacts of these changes, but these cannot be finalised until the final rules are published.
- In July 2022, the Financial Policy Committee announced an increase to the UK countercyclical capital buffer from 1% to 2%, effective from 5 July 2023.

IFRS 9 transitional arrangements

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

Per the transitional factors set out in Regulation (EU) 2017/2395, from 1 January 2023 the phasing in period is complete and the Group may no longer add back a proportion of the impact of adopting IFRS 9 (2022: 25% add back permitted). However, in response to the COVID-19 pandemic, for non-credit impaired ECLs raised from 1 January 2020 the transitional arrangements were revised, as set out in the CRR 'Quick Fix'. For such loans, the revised add-back percentage for 2023 is 50% (2022: 75%).

Capital risk and management

Capital risk disclosures

Certain disclosures relating to the Group's capital position are shown on the following pages. The disclosures present the consolidated capital position for the Group, as reported to the PRA.

Disclosures are presented on a CRD V basis after applying IFRS 9 transitional arrangements. A comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 44.

Regulatory capital
Composition of the Group's regulatory capital is as follows:

	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Share capital	**2.5**	2.5
Share premium account	**87.3**	87.3
Capital contribution reserve	**19.9**	5.6
Retained earnings	**997.1**	905.8
Intangible assets	**(103.0)**	(76.4)
Transitional adjustment for IFRS 9	**15.2**	24.5
Prudent valuation adjustment	**(2.1)**	(1.3)
Common Equity Tier 1 capital	**1,016.9**	948.0
Capital securities	**123.1**	122.9
Additional Tier 1 capital	**123.1**	122.9
Total Tier 1 capital	**1,140.0**	1,070.9
Subordinated debt liability[1]	**94.1**	94.1
Tier 2 capital	**94.1**	94.1
Total regulatory capital	**1,234.1**	1,165.0

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

	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Total regulatory capital	**1,234.1**	1,165.0
Subordinated debt liability[1]	**(94.1)**	(94.1)
Intangible assets	**103.0**	76.4
Transitional adjustment for IFRS 9	**(15.2)**	(24.5)
Prudent valuation adjustment	**2.1**	1.3
Cash flow hedging reserve	**40.9**	26.4
Fair value through other comprehensive income reserve	**7.3**	(10.7)
Total equity	**1,278.1**	1,139.8

[1] For the purpose of regulatory capital calculations, capitalised interest and other accounting adjustments of £2.7 million are excluded (31 December 2022: £2.7 million).

Capital risk and management

Movement in the Group's total regulatory capital during the period is as follows:

(Unaudited)	£m
Total regulatory capital as at 1 January 2023	**1,165.0**
Movement in Common Equity Tier 1 capital	
Increase in capital contribution reserve	**14.3**
Increase in retained earnings:	
Profit for the period	**100.3**
Share-based payments	**0.4**
Coupon paid on capital securities	**(9.4)**
Increase in intangible assets	**(26.6)**
Decrease in transitional adjustment for IFRS 9	**(9.3)**
Increase in prudent valuation adjustment	**(0.8)**
Total movement in Common Equity Tier 1 capital	**68.9**
Movement in Additional Tier 1 capital	
Other movement in capital securities	**0.2**
Total movement in Additional Tier 1 capital	**0.2**
Total regulatory capital as at 30 June 2023	**1,234.1**

Key capital metrics

(Unaudited)	30 Jun 2023	31 Dec 2022 (Restated)[1]
Risk-weighted assets (£m)	**8,364.4**	7,463.1
Common Equity Tier 1 capital ratio (%)	**12.2**	12.7
Total Tier 1 capital ratio (%)	**13.6**	14.3
Total capital ratio (%)	**14.8**	15.6
Leverage ratio (%)	**8.1**	8.7

[1] Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. As a result, risk-weighted assets have increased by £80.6 million to £7,463.1 million. Capital and leverage ratios have also been restated to reflect these adjustments.

Capital risk and management

IFRS 9 transitional arrangements impact analysis

As detailed on page 41, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following table provides a comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis).

	30 Jun 2023		31 Dec 2022 (Restated)[1]	
(Unaudited)	**Including transitional adjustments**	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**1,016.9**	**1,001.7**	948.0	923.5
Total Tier 1 capital (£m)	**1,140.0**	**1,124.8**	1,070.9	1,046.4
Total regulatory capital (£m)	**1,234.1**	**1,218.9**	1,165.0	1,140.5
Risk-weighted assets				
Total risk-weighted assets (£m)	**8,364.4**	**8,349.8**	7,463.1	7,442.7
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.2**	**12.0**	12.7	12.4
Total Tier 1 Capital Ratio (%)	**13.6**	**13.5**	14.3	14.1
Total capital ratio (%)	**14.8**	**14.6**	15.6	15.3
Leverage				
UK Leverage ratio (%)	**8.1**	**8.0**	8.7	8.5

[1] Risk-weighted assets as at 31 December 2022 have been restated to reflect adjustments in credit valuation adjustment and counterparty credit risk in respect of the Group's structured entities' interest rate swap derivatives. As a result, risk-weighted assets (on both a transitional and fully loaded basis) have increased by £80.6 million. Capital and leverage ratios have also been restated to reflect these adjustments.

Statement of Directors' Responsibilities

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

- the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board and as adopted by the UK;
- the Interim Financial Report includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the Interim Financial Report includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

This responsibility statement was approved by the Board of Directors on 9 August 2023.

By order of the Board.

Andrew Nicholson
Company Secretary

Independent Review Report to Shawbrook Group plc

Conclusion
We have been engaged by Shawbrook Group plc (the Company) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023, which comprises the condensed consolidated statement of profit and loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted for use in the UK and the Disclosure Guidance and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (the UK FCA).

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

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

Conclusions relating to going concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the 'basis for conclusion' section of this report, nothing has come to our attention that causes us to believe that the Directors have inappropriately adopted the going concern basis of accounting, or that the Directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the company to cease to continue as a going concern, and the above conclusions are not a guarantee that the company will continue in operation.

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

As disclosed in Note 2, the annual financial statements of the company are prepared in accordance with UK-adopted international accounting standards.

The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the 'basis for conclusion' section of this report.

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

Simon Clark

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

9 August 2023

Interim Financial Statements

Condensed consolidated statement of profit and loss

For the six months ended 30 June (Unaudited)	Note	2023 £m	2022 (Restated)[1] £m
Interest income calculated using the effective interest rate method[1]	9	**418.1**	252.5
Other interest and similar income[1]	9	**65.1**	10.5
Interest expense and similar charges	10	**(200.5)**	(56.8)
Net interest income		**282.7**	206.2
Operating lease rental income		**4.9**	4.9
Depreciation on operating leases		**(4.2)**	(4.2)
Net other operating lease income		**–**	0.2
Net operating lease income		**0.7**	0.9
Fee and commission income		**8.4**	6.4
Fee and commission expense		**(6.4)**	(3.1)
Net fee and commission income		**2.0**	3.3
Net gains on derecognition of financial assets measured at amortised cost		**–**	7.7
Net gains/(losses) on derivative financial instruments and hedge accounting		**3.7**	(1.3)
Net other operating (expense)/income		**(1.1)**	1.4
Net operating income		**288.0**	218.2
Administrative expenses	11	**(106.7)**	(94.9)
Impairment losses on financial assets	12	**(33.4)**	(16.7)
Provisions	19	**(12.8)**	(0.2)
Total operating expenses		**(152.9)**	(111.8)
Profit before tax		**135.1**	106.4
Tax	13	**(34.8)**	(27.7)
Profit after tax, attributable to owners		**100.3**	78.7

The notes on pages 53 to 73 are an integral part of these condensed consolidated interim financial statements.

[1] As detailed in Note 10 of the Group's 2022 Annual Report and Accounts, a change was implemented to separate interest income relating to the different components of loans and advances to customers to reflect the method of calculation more accurately. As a result, interest on finance lease and instalment credit receivables is now presented in other interest and similar income, rather than interest income calculated using the effective interest rate method. Prior period comparatives for the six months ended 30 June 2022 have been restated accordingly to reflect this reclassification, resulting in £13.5 million being reclassified from interest income calculated using the effective interest rate method to other interest and similar income.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June (Unaudited)	Note	2023 £m	2022 £m
Profit after tax		**100.3**	78.7
Items that may be reclassified subsequently to the statement of profit and loss:			
Cash flow hedging reserve			
Net gains from effective portion of changes in fair value		**23.0**	4.4
Reclassifications to statement of profit and loss		**(3.2)**	–
Related tax		**(5.3)**	(1.2)
Movement in cash flow hedging reserve		**14.5**	3.2
Fair value through other comprehensive income reserve			
Net gains from changes in fair value		**22.2**	0.5
Change in loss allowance	12	**2.5**	0.7
Related tax		**(6.7)**	(0.3)
Movement in fair value through other comprehensive income reserve		**18.0**	0.9
Total items that may be reclassified subsequently to the statement of profit and loss		**32.5**	4.1
Other comprehensive income, net of tax		**32.5**	4.1
Total comprehensive income, attributable to owners		**132.8**	82.8

The notes on pages 53 to 73 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of financial position

	Note	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Assets			
Cash and balances at central banks	21	**1,949.5**	2,037.1
Loans and advances to banks	21	**434.3**	263.6
Loans and advances to customers	14	**11,848.0**	10,457.1
Investment securities	16	**718.2**	691.0
Derivative financial assets	17	**557.2**	330.7
Current tax receivable		**0.8**	–
Property, plant and equipment		**45.7**	48.3
Intangible assets	18	**103.0**	76.4
Deferred tax assets		**14.4**	19.4
Other assets		**24.7**	15.1
Total assets		**15,695.8**	13,938.7
Liabilities			
Amounts due to banks		**1,626.2**	1,498.7
Customer deposits		**12,101.0**	10,914.5
Provisions	19	**15.7**	6.0
Derivative financial liabilities	17	**191.1**	90.5
Debt securities in issue	15	**318.8**	116.4
Current tax liabilities		**–**	3.2
Lease liabilities		**7.3**	7.4
Other liabilities		**60.8**	65.4
Subordinated debt liability		**96.8**	96.8
Total liabilities		**14,417.7**	12,798.9
Equity			
Share capital		**2.5**	2.5
Share premium account		**87.3**	87.3
Capital securities		**123.1**	122.9
Capital contribution reserve		**19.9**	5.6
Cash flow hedging reserve		**40.9**	26.4
Fair value through other comprehensive income reserve		**7.3**	(10.7)
Retained earnings		**997.1**	905.8
Total equity		**1,278.1**	1,139.8
Total equity and liabilities		**15,695.8**	13,938.7

The notes on pages 53 to 73 are an integral part of these condensed consolidated interim financial statements.
These condensed consolidated interim financial statements were approved by the Board of Directors on 9 August 2023 and were signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 07240248

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2023 (Unaudited)	**Share capital £m**	**Share premium account £m**	**Capital securities £m**	**Capital contribution reserve £m**	**Cash flow hedging reserve £m**	**FVOCI reserve £m**	**Retained earnings £m**	**Total equity £m**
As at 1 January 2023	**2.5**	**87.3**	**122.9**	**5.6**	**26.4**	**(10.7)**	**905.8**	**1,139.8**
Profit for the period	–	–	–	–	–	–	**100.3**	**100.3**
Movement in cash flow hedging reserve	–	–	–	–	**14.5**	–	–	**14.5**
Movement in fair value through other comprehensive income reserve	–	–	–	–	–	**18.0**	–	**18.0**
Total comprehensive income	–	–	–	–	**14.5**	**18.0**	**100.3**	**132.8**
Equity-settled share-based payments	–	–	–	–	–	–	**0.4**	**0.4**
Coupon paid on capital securities	–	–	–	–	–	–	**(9.4)**	**(9.4)**
Capital contribution	–	–	–	**14.3**	–	–	–	**14.3**
Other movements	–	–	**0.2**	–	–	–	–	**0.2**
As at 30 June 2023	**2.5**	**87.3**	**123.1**	**19.9**	**40.9**	**7.3**	**997.1**	**1,278.1**

For the six months ended 30 June 2022 (Unaudited)	Share capital £m	Share premium account £m	Capital securities £m	Capital contribution reserve £m	Cash flow hedging reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	2.5	87.3	124.0	5.6	–	–	740.8	960.2
Profit for the period	–	–	–	–	–	–	78.7	78.7
Movement in cash flow hedging reserve	–	–	–	–	3.2	–	–	3.2
Movement in fair value through other comprehensive income reserve	–	–	–	–	–	0.9	–	0.9
Total comprehensive income	–	–	–	–	3.2	0.9	78.7	82.8
Equity-settled share-based payments	–	–	–	–	–	–	0.7	0.7
Coupon paid on capital securities	–	–	–	–	–	–	(4.9)	(4.9)
As at 30 June 2022	2.5	87.3	124.0	5.6	3.2	0.9	815.3	1,038.8

The notes on pages 53 to 73 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 June (Unaudited)	Note	2023 £m	2022 £m
Cash flows from operating activities			
Profit before tax		**135.1**	106.4
Adjustments for non-cash items and other adjustments included in the statement of profit and loss		**36.4**	3.3
Increase in operating assets	21	**(1,294.7)**	(777.9)
Increase in operating liabilities	21	**1,274.6**	840.7
Tax paid		**(45.6)**	(29.4)
Net cash generated from operating activities		**105.8**	143.1
Cash flows from investing activities			
Purchase of investment securities		**(184.5)**	(49.3)
Disposals and maturities of investment securities		**152.3**	–
Purchase of property, plant and equipment		**(0.4)**	(0.2)
Purchase and development of intangible assets		**(6.3)**	(3.0)
Purchase of subsidiary, net of cash acquired		**(8.8)**	–
Net cash used by investing activities		**(47.7)**	(52.5)
Cash flows from financing activities			
Increase in amounts due to banks		**127.5**	138.4
Repurchase and redemption of debt securities		**(110.9)**	(32.6)
Costs arising on issue of debt securities		**–**	(0.1)
Payment of principal portion of lease liabilities		**(1.1)**	(1.1)
Coupon paid to holders of capital securities		**(9.4)**	(4.9)
Capital contribution		**14.3**	–
Net cash generated from financing activities		**20.4**	99.7
Net increase in cash and cash equivalents		**78.5**	190.3
Cash and cash equivalents as at 1 January		**2,271.1**	1,739.6
Cash and cash equivalents as at 30 June	21	**2,349.6**	1,929.9

The notes on pages 53 to 73 are an integral part of these condensed consolidated interim financial statements.

Notes to the interim financial statements

for the six months ended 30 June 2023

Basis of preparation and accounting policies

Significant one-off transactions

Financial performance

Assets and liabilities

Other information

Notes to the interim financial statements

1. Reporting entity

Shawbrook Group plc (the 'Company') is a public limited company incorporated and domiciled in the UK. The Company is registered in England and Wales (company number 07240248) and its registered office is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE.

The condensed consolidated interim financial statements of Shawbrook Group plc, for the six months ended 30 June 2023, comprise the results of the Company and its subsidiaries (together, the 'Group'), including its principal subsidiary, Shawbrook Bank Limited.

Details of subsidiary companies included in the Group are provided in Note 22. The ultimate parent company is Marlin Bidco Limited

The principal activities of the Group are lending and savings.

2. Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2023, have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted for use in the UK.

The condensed consolidated interim financial statements do not include all information and disclosures required in full annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements. The Interim Financial Statements should be read in conjunction with the Group's 2022 Annual Report and Accounts, which were prepared in accordance with UK-adopted international accounting standards and are available on the Group's website **www.shawbrook.co.uk/investors**.

The condensed consolidated interim financial statements are prepared on a going concern basis (see Note 3) and on a historical cost basis, except for the following material items that are carried at fair value: derivative financial instruments, which are measured at fair value through profit or loss (FVTPL), and certain loan receivables that are measured at fair value through other comprehensive income (FVOCI).

All amounts are presented in pounds sterling, which is the functional currency of the Company and all of its subsidiaries. Amounts are rounded to the nearest million (to one decimal place), except where otherwise indicated.

The comparative figures for the six months ended 30 June 2022 have not been audited and do not constitute the Group's statutory accounts for that period, as defined in Section 434 of the Companies Act 2006.

The comparative figures for the year ended 31 December 2022 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 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

3. Going concern

The condensed consolidated interim financial statements are prepared on a going concern basis. To assess the appropriateness of this basis, the Directors considered a wide range of information relating to present and future conditions, including the Group's current financial position and future projections of profitability, cash flows and capital resources. The Directors also considered the Group's risk assessment framework and potential impacts that any top and emerging risk identified may have on the Group's financial position and longer-term strategy.

The Group continues to have a proven business model, as demonstrated by its continued levels of profitability, and remains well positioned in each of its core markets. The Directors believe the Group is well capitalised and efficiently funded, with high levels of liquidity.

The Directors have reviewed the Group's capital and liquidity plans, which have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and the annual Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. In this reporting period, stress testing incorporated two Prudential Regulation Authority (PRA) prescribed scenarios, the 2022 PRA Annual Cyclical Scenario and the 'Late Action' scenario published within the 2021 Climate Biennial Scenario, which incorporates a disorderly transition to net zero. The stressed forecasts indicate that under these stressed scenarios the Group continues to operate with sufficient levels of liquidity and capital for a period of at least 12 months from the date of approval of these interim financial statements, with the Group's capital ratios and liquidity remaining in excess of regulatory requirements.

Based on the above, the Directors believe the Group has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of these interim financial statements, and the Group has sufficient capital and liquidity to enable it to continue to meet its regulatory requirements as set out by the PRA. Accordingly, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing these interim financial statements.

4. Presentation of risk and capital management disclosures

Disclosures concerning the nature and extent of risks relating to financial instruments are included within the principal risks section of the Interim Risk Report. Specifically, this includes updates and additional information about credit risk (starting on page 23) and liquidity risk (starting on page 39). There have been no significant changes or developments in relation to Market risk and as such no additional disclosures are provided for this reporting period. Disclosures concerning the management of capital are included within the capital risk and management section of the Interim Risk Report starting on page 41.

Notes to the interim financial statements

5. Accounting policies

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied as at and during the year ended 31 December 2022, as described in Note 7 of the 2022 Annual Report and Accounts, as are the methods of computation. These accounting policies are also expected to be reflected in the 2023 Annual Report and Accounts. The following points should also be noted:

Adoption of new and revised standards and interpretations during the current reporting period
On 1 January 2023, IFRS 17 'Insurance Contracts', along with several amendments to existing accounting standards, came into effect and were adopted by the Group during the period. None of these new or revised standards had a significant impact on the Group.

One of the adopted amendments was to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements'. This amendment means entities will now only be required to disclose their material accounting policies, as opposed to their significant accounting policies. The disclosure implications of this are still being assessed by the Group, however the current expectation is it will reduce the level of disclosure of certain accounting policies in the 2023 Annual Report and Accounts. This does not impact disclosures in these condensed consolidated interim financial statements, as accounting policies are not disclosed.

Future developments
A number of amendments to existing accounting standards have not yet come into effect. The Group has not early adopted any of these amendments. Based on initial assessments, the Group does not expect any of these future accounting standard developments to have a material impact.

6. Critical accounting judgements and estimates

The preparation of financial statements requires the Group to make judgements and estimates that affect the application of accounting policies and the reported results and financial position.

Estimates, and the underlying assumptions driving these estimates, are reviewed by the Group on an ongoing basis. Due to the inherent uncertainty in making estimates, actual results reported in the future may differ from the amounts estimated. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most complex and subjective judgements, and areas where estimates are considered to have the most significant effect on the financial statements, are largely the same as those set out in Note 8 of the 2022 Annual Report and Accounts, with the following exception:

- The area of judgement 'classification of financial instruments', as disclosed in Note 8(c) of the 2022 Annual Report and Accounts, is no longer identified as a critical area. This was identified as an area of critical judgement in the preceding period, specifically due to the complex assessments involved in determining the appropriate classification of certain customer loans originated under the Group's 'originate to distribute' strategy, which, depending on market conditions and other factors, may result in the loans being sold (as part of a structured asset sale) or securitised in a manner that they are retained on-balance sheet. In the current period, there have not been any new transaction types that have involved such complex judgements and, accordingly, it is deemed appropriate to remove this area.

A summary regarding the critical accounting judgements and estimates identified in the current period are set out below:

(a) Impairment losses on financial assets

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. The calculation and measurement of ECLs requires the use of complex judgements and represents a key source of estimation uncertainty.

Judgements
Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised. This involves judgements over whether the financial asset has had a significant increase in credit risk since initial recognition, whether the financial asset is in default or whether the financial asset is 'cured'; and
- application of judgemental adjustments to modelled ECLs when the Group judges that the modelled ECL amount does not adequately reflect the expected outcome.

Estimates
Underlying assumptions used in estimating ECLs that, depending on a range of factors, could result in a material adjustment in the next financial period are:

- the forward-looking economic scenarios used;
- probability weightings applied to these scenarios; and
- model assumptions used, such as the probability of default and loss given default.

Updates and additional details, including sensitivity analysis, are included in the credit risk section of the Interim Risk Report starting on page 30. Additional information about the impairment loss recognised in the period can also be found in Note 12.

Notes to the interim financial statements

6. Critical accounting judgements and estimates (continued)

(b) Provisions for customer remediation and conduct issues

Provisions have been recognised in respect of potential claims for instances of misrepresentation, breaches of contract or other wrongdoing by suppliers, in circumstances where the Group may have a liability under consumer credit legislation for the acts or omissions of suppliers (although the Group continues to pursue recovery from such suppliers). Calculating the amount of the provision requires judgement and represents a source of estimation uncertainty.

Judgements

The judgement considered to have the most significant effect on amounts in the financial statements is determining whether an event has occurred in the past that would result in a claim, and whether it is probable that such a claim would result in an outflow of resources for the Group.

In the current period, a specific area where significant judgement has been required relates to complaints from customers about holiday ownership (timeshare) products. The provision made in relation to such claims (see Note 19) relates to a specific sub-set of customer complaints where it is judged that an outflow of resources is probable. There is potential for additional claims from another customer sub-set, however, given the level of uncertainty regarding the outcome, these are not judged to meet the criteria of a provision at this point in time and instead a contingent liability is disclosed (see Note 24).

Estimates

In calculating the provision, the key assumptions driving the estimate are the expected number of claims, the number of claims expected to be upheld and the expected redress costs associated with the upheld claims. Given the level of sensitivity currently surrounding these claims, no further detail or sensitivity analysis is provided to avoid prejudicing the outcome of proceedings.

(c) Fair value of debt instruments measured at fair value through other comprehensive income

The Group holds certain mortgage loans that are measured at FVOCI. In valuing these loans, the Group makes use of unobservable inputs (i.e. Level 3 in the fair value hierarchy) and the calculation represents a source of estimation uncertainty.

Estimates

To calculate the fair value of the loans measured at FVOCI, the Group uses the discounted cash flow method, in which the significant unobservable inputs are the risk-adjusted discount rate and prepayment curve used.

Updates and additional details, including sensitivity analysis are provided in Note 20(b) starting on page 70.

(d) Securitisations

Securitisation transactions involve the transfer of certain customer loans to a structured entity. In determining the accounting treatment to be applied for such transactions the Group must perform a number of complex assessments, which necessitates the application of judgement.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- assessing whether the Group controls the structured entity and whether it should therefore be treated as a subsidiary by virtue of control and consolidated; and
- assessing whether the securitised loans should be derecognised.

The outcome of these assessments significantly impacts the resulting accounting treatment and amounts recognised in the financial statements.

In making such assessments the structure and terms of the contractual arrangements are scrutinised, with particular consideration given to matters such as: who will service and manage the securitised loans and the ownership of any 'X' notes and residual certificates issued by the structured entity (which represents the 'equity' investment in the securitised loans, giving the rights to any excess spread and the risk of losses associated with any defaults).

During the period, the Group completed one securitisation transaction. Judgement was applied to ultimately conclude that the structured entity should be consolidated and the loans retained on balance sheet, as detailed in Note 15.

Notes to the interim financial statements

7. Acquisition of subsidiary

On 31 May 2023, following the receipt of regulatory and legal approval, Shawbrook Bank Limited, the Group's principal subsidiary, completed the acquisition of 100% of the ordinary shares of Bluestone Mortgages Limited (BML), making BML a wholly owned subsidiary of the Group.

BML is a specialist mortgage lender focused primarily on residential owner-occupied mortgages. Acquiring BML will strengthen the Group's presence in the specialist mortgage market, providing the Group with growth opportunities through an extended product range and increased distribution network.

BML has four wholly owned subsidiary companies, along with two subsidiaries by virtue of control, all of which become indirect subsidiary companies of the Group as part of this acquisition (see Note 22).

BML commenced being consolidated as a subsidiary of the Group from 31 May 2023, the date control transferred to the Group. In the one month of the reporting period that BML was a subsidiary of the Group, it contributed net operating income of £0.7 million and a loss before tax of £1.0 million to the Group's results. If the acquisition had occurred on 1 January 2023, it is estimated that the consolidated net operating income for the Group for the period ended 30 June 2023 would have been £292.4 million and consolidated profit before tax for the Group would have been £133.4 million. In determining these amounts, management has assumed that the fair value adjustment that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2023.

As detailed below, in accordance with the requirements of IFRS 3 'Business Combinations', the Group has determined provisional fair values at the date of acquisition for the consideration transferred and the identifiable assets acquired and liabilities assumed. The Group continues to assess these amounts, in particular the fair value of identifiable net assets acquired, to determine if any additional information existed at the date of acquisition that would alter these amounts. This assessment will be completed by no later than 31 May 2024.

Consideration transferred

The acquisition date fair value of each major class of consideration transferred is as follows:

(Unaudited)	£m
Cash	44.7
Total fair value of consideration transferred	**44.7**

There are no contingent consideration arrangements.

Identifiable assets acquired and liabilities assumed

The following table sets out information about the net assets acquired at the date of acquisition, including the carrying amount, fair value adjustments recognised and the resultant fair value. Details of the fair value adjustments recognised are set out on the following page as cross referenced in the table.

(Unaudited)	Carrying amount £m	Fair value adjustment £m	(See note on page 58)	Fair value £m
Cash and balances at central banks	35.9			35.9
Loans and advances to customers	298.2	(3.2)	i	295.0
Derivative financial assets	15.1			15.1
Property, plant and equipment	1.4			1.4
Intangible assets	2.4	0.5	ii	2.9
Deferred tax assets	0.3			0.3
Other assets	6.2			6.2
Debt securities in issue	(316.9)			(316.9)
Lease liabilities	(1.0)			(1.0)
Other liabilities	(15.7)			(15.7)
Total identifiable net assets acquired	**25.9**	**(2.7)**		**23.2**

Notes to the interim financial statements

7. Acquisition of subsidiary (continued)

Notes to the preceding table:

i) The net £3.2 million negative fair value adjustment to loans and advances to customers comprises: £0.9 million to remove the loss allowance on acquisition, as required by acquisition accounting; offset by a negative £4.1 million fair value adjustment reflecting the output of discounted cash flow model calculations.

ii) The net £0.5 million fair value adjustment to intangible assets comprises: the recognition of a £1.0 million separately identifiable intangible asset for broker relationships; offset by a negative £0.5 million fair value adjustment to reduce the value of capitalised software development costs.

As detailed in i) above, acquisition accounting requires the acquired loans to be recognised at fair value, resulting in a £nil loss allowance on acquisition. Subsequent to initial recognition at fair value, the loans are then subject to the Group's ECL methodology, with a full loss allowance calculated. This resulted in a £0.4 million ECL charge being recognised in the statement of profit and loss immediately following the acquisition date.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

(Unaudited)	£m
Fair value of consideration transferred	44.7
Fair value of identifiable net assets acquired	(23.2)
Goodwill recognised	**21.5**

The goodwill recognised is mainly attributable to the synergies expected to be achieved from integrating BML into the Group.

None of the goodwill recognised is expected to be tax deductible for trading purposes.

Acquisition related costs

In the six months ended 30 June 2023, acquisition related costs of £2.8 million are recognised in administrative expenses in the statement of profit and loss. There were no acquisition related costs in the comparative period to 30 June 2022. Acquisition related costs in the second half of 2022 totalled £0.2 million.

Capital contribution from ultimate parent company

In conjunction with this transaction, the ultimate parent company, Marlin Bidco Limited, made a capital contribution to the Company of £14.3 million. This is recognised in the capital contribution reserve in the statement of financial position.

8. Segmental analysis

The following section provides information regarding the operating segments of the Group. Substantially all of the Group's activities are in the UK and, as such, segmental analysis on geographical lines is not presented. The Group is not reliant on any single customer and therefore information about major customers is also not provided.

Operating segments

In Note 9 of the Group's 2022 Annual Report and Accounts, the Group disclosed five reportable operating segments (Real Estate, SME, Consumer Lending, TML Mortgages, Savings and Central). In response to the acquisition of BML, as detailed in Note 7, a review of the Group's reportable operating segments was performed in accordance with the criteria in IFRS 8 'Operating Segments'. As a result, the previously disclosed Real Estate segment has been amended to extract all amounts relating to BML[1]. Amounts relating to BML are now aggregated with the previously disclosed TML Mortgages segment; forming a new reportable operating segment comprised of the two subsidiaries (Bluestone Mortgages Limited and The Mortgage Lender Limited). This new operating segment is referred to as 'Retail Mortgage Brands'.

In addition, during the reporting period, the Group made a number of changes to how it reports its results to the chief operating decision maker, which for the Group represents the Executive Committee. Specifically, transfer pricing methodology has been enhanced to allocate the associated interest income and expense to the lending segments, methodogy to allocate administrative costs across the lending segments has also been further developed. As a result, the majority of income and expenses previously included in the 'Savings and Central' segment are now allocated to the lending segments. Consequently, the previously disclosed 'Savings and Central' segment no longer meets the criteria of a reportable operating segment.

[1] Prior to the acquisition of BML, forward flow agreements were in place which meant certain loans originated by BML, and the associated income and expenses, were recognised in the Group's financial statements.

Notes to the interim financial statements

8. Segmental analysis (continued)

Based on the above, the Group now discloses four reportable operating segments, as follows:

New reportable operating segments	Description
Real Estate	Provides specialist commercial and residential mortgage products to professional landlords, investors and homeowners.
SME	Provides debt-based financing solutions to support UK small and medium-sized enterprises (SMEs).
Consumer Lending	Provides unsecured personal loans and unsecured loans through strategic partnerships.
Retail Mortgage Brands	Comprised of the Group's subsidiaries, The Mortgage Lender Limited and Bluestone Mortgages Limited. Provides residential mortgages for those with complex income profiles, including the self-employed, entrepreneurs and first-time buyers, and buy-to-let mortgages.

Any income or expense not allocated to the above reportable operating segments under the new methodology is included in 'Other', which does not represent a reportable operating segment.

The following tables provide summarised information regarding the results of each reportable operating segment based on the new reportable operating segments and using the revised allocation methodology to reflect how results are provided to the chief operating decision maker. Prior period comparative information has been restated accordingly.

Where applicable, segment results are presented on an underlying basis, with underlying adjustments presented separately to allow reconciliation to the statutory results of the Group. Underlying adjustments are exceptional items of income or expense that are material by size and/or nature and are typically non-recurring. These items are presented separately in order to facilitate comparison of the Group's underlying performance from period to period. Further details of the underlying adjustments made in each of the reported periods are provided on page 9 of the Interim Management Report.

	Enterprise							
Six months ended 30 June 2023 (Unaudited)	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Other £m**	**Underlying total £m**	**Underlying adjustment £m**	**Total £m**
Interest and similar income	217.4	145.1	29.7	90.5	0.5	483.2	–	483.2
Interest expense and similar charges	(93.7)	(54.2)	(6.2)	(40.8)	(5.6)	(200.5)	–	(200.5)
Net interest income/(expense)	123.7	90.9	23.5	49.7	(5.1)	282.7	–	282.7
Net operating lease income	–	0.7	–	–	–	0.7	–	0.7
Net fee and commission income/(expense)	(1.2)	4.7	(1.5)	1.0	(1.0)	2.0	–	2.0
Net gains on derivative financial instruments and hedge accounting	–	–	–	–	3.7	3.7	–	3.7
Net other operating expense	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Net operating income/(expense)	122.5	96.3	22.0	50.7	(3.5)	288.0	–	288.0
Administrative expenses	(46.6)	(32.0)	(10.5)	(14.8)	–	(103.9)	(2.8)	(106.7)
Impairment losses on financial assets	(12.6)	(6.5)	(11.9)	(2.4)	–	(33.4)	–	(33.4)
Provisions	–	–	(1.4)	–	–	(1.4)	(11.4)	(12.8)
Total operating expenses	(59.2)	(38.5)	(23.8)	(17.2)	–	(138.7)	(14.2)	(152.9)
Profit/(loss) before tax	63.3	57.8	(1.8)	33.5	(3.5)	149.3	(14.2)	135.1

Notes to the interim financial statements

8. Segmental analysis (continued)

Six months ended 30 June 2022 (Unaudited) (Restated)	Enterprise: Real Estate £m	Enterprise: SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Other £m	Underlying total £m	Underlying adjustment £m	Total £m
Interest and similar income	123.4	87.7	22.8	32.2	(3.1)	263.0	–	263.0
Interest expense and similar charges	(30.7)	(10.9)	(2.6)	(7.8)	(4.8)	(56.8)	–	(56.8)
Net interest income/(expense)	92.7	76.8	20.2	24.4	(7.9)	206.2	–	206.2
Net operating lease income	–	0.9	–	–	–	0.9	–	0.9
Net fee and commission income/(expense)	(0.9)	4.5	(1.0)	1.1	(0.4)	3.3	–	3.3
Net gains on derecognition of financial assets measured at amortised cost	7.7	–	–	–	–	7.7	–	7.7
Net losses on derivative financial instruments and hedge accounting	–	–	–	–	(1.3)	(1.3)	–	(1.3)
Net other operating income	–	–	–	–	1.4	1.4	–	1.4
Net operating income/(expense)	99.5	82.2	19.2	25.5	(8.2)	218.2	–	218.2
Administrative expenses	(39.9)	(29.0)	(9.2)	(11.8)	–	(89.9)	(5.0)	(94.9)
Impairment losses on financial assets	(0.5)	(5.1)	(9.0)	(2.1)	–	(16.7)	–	(16.7)
Provisions	–	–	(0.2)	–	–	(0.2)	–	(0.2)
Total operating expenses	(40.4)	(34.1)	(18.4)	(13.9)	–	(106.8)	(5.0)	(111.8)
Profit/(loss) before tax	59.1	48.1	0.8	11.6	(8.2)	111.4	(5.0)	106.4

The following tables present summarised information about the Group's assets and liabilities based on the revised reportable operating segments. Prior period comparative information has been restated accordingly.

Loans and advances to customers and assets on operating leases (i.e. the Group's 'loan book') are allocated to the relevant lending segments. All other assets and liabilities are allocated to 'Other'.

As at 30 June 2023 (Unaudited)	**Enterprise: Real Estate £m**	**Enterprise: SME £m**	**Consumer Lending £m**	**Retail Mortgage Brands £m**	**Other £m**	**Total £m**
Assets	**5,495.0**	**2,719.0**	**537.3**	**3,132.0**	**3,812.5**	**15,695.8**
Liabilities	**–**	**–**	**–**	**–**	**(14,417.7)**	**(14,417.7)**
Net assets/(liabilities)	**5,495.0**	**2,719.0**	**537.3**	**3,132.0**	**(10,605.2)**	**1,278.1**

As at 31 December 2022 (Unaudited) (Restated)	Enterprise: Real Estate £m	Enterprise: SME £m	Consumer Lending £m	Retail Mortgage Brands £m	Other £m	Total £m
Assets	4,986.2	2,591.4	499.6	2,418.0	3,443.5	13,938.7
Liabilities	–	–	–	–	(12,798.9)	(12,798.9)
Net assets/(liabilities)	4,986.2	2,591.4	499.6	2,418.0	(9,355.4)	1,139.8

Notes to the interim financial statements

9. Interest and similar income

Six months ended 30 June (Unaudited)	2023 £m	2022 (Restated)[1] £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	**39.6**	6.9
On loans and advances to customers: loan receivables measured at amortised cost[1]	**327.9**	227.8
On loans and advances to customers: loan receivables measured at FVOCI	**35.3**	14.6
On investment securities	**15.3**	3.2
Total interest income calculated using the effective interest rate method	**418.1**	252.5
Other interest and similar income		
On loans and advances to customers: finance lease and instalment credit receivables[1]	**16.8**	13.5
On derivative financial instruments	**48.3**	(3.0)
Total other interest and similar income	**65.1**	10.5
Total interest and similar income	**483.2**	263.0

With the exception of interest on loans and advances to customers measured at FVOCI, interest income calculated using the effective interest rate (EIR) method is attributable to financial assets measured at amortised cost. In calculating interest under the EIR method, the Group continues to apply its established accounting policy in relation to financial instruments that revert from a fixed to variable rate of interest, whereby the EIR is based on the fixed rate for the fixed period and does not take account of any reversionary interest post the end of the fixed date. The Group monitors actual and expected customer repayment behaviour and periodically adjusts the recognition profile to reflect significant changes.

Interest on derivative financial instruments includes net interest income of £47.8 million attributable to derivative financial instruments in qualifying hedging relationships hedging assets (30 June 2022: net interest expense of £2.8 million).

10. Interest expense and similar charges

Six months ended 30 June (Unaudited)	2023 £m	2022 £m
On amounts due to banks	**27.1**	3.8
On customer deposits	**155.0**	44.0
On derivative financial instruments	**10.7**	1.1
On debt securities in issue	**3.6**	3.8
On lease liabilities	**0.1**	0.1
On subordinated debt liability	**4.0**	4.0
Total interest expense and similar charges	**200.5**	56.8

Except for interest on derivative financial instruments and lease liabilities, amounts in the above table are calculated using the EIR method and are attributable to financial liabilities measured at amortised cost.

Interest on derivative financial instruments includes net interest expense of £7.7 million attributable to derivative financial instruments in qualifying hedging relationships hedging liabilities (30 June 2022: net interest expense of £1.1 million).

[1] In the year ended 31 December 2022, a change was implemented to separate interest income relating to the different components of loans and advances to customers to reflect the method of calculation more accurately. As a result, interest on finance lease and instalment credit receivables is now presented in other interest and similar income, rather than interest income calculated using the effective interest rate method. The overall total for interest and similar income is unchanged. Prior period comparatives have been restated accordingly to reflect this change, resulting in £13.5 million being reclassified from interest income calculated using the effective interest rate method to other interest and similar income.

Notes to the interim financial statements

11. Administrative expenses

Six months ended 30 June (Unaudited)	2023 £m	2022 £m
Payroll costs	60.0	52.5
Depreciation of property, plant and equipment[1]	1.6	1.6
Amortisation of intangible assets	4.1	4.2
Other administrative expenses	41.0	36.6
Total administrative expenses	106.7	94.9

12. Impairment losses on financial assets

Impairment losses on financial assets are attributable to the Group's loans and advances to customers and loan commitments. Impairment losses relating to the Group's other financial asset categories that are in scope of impairment under IFRS 9 'Financial Instruments' (cash and balances at central banks, loans and advances to banks and investment securities) are immaterial, totalling less than £0.1 million in both reported periods.

The following table analyses impairment losses on financial assets by financial asset category.

Six months ended 30 June (Unaudited)	2023 £m	2022 £m
Impairment losses on loans and advances to customers at amortised cost		
Net ECL charge for the period	20.0	13.0
Loan balances written off in the period	11.6	5.6
Amounts recovered in the period in respect of loan balances previously written off	(2.8)	(2.4)
Total impairment losses on loans and advances to customers at amortised cost	28.8	16.2
Impairment losses on loans and advances to customers at FVOCI		
Net ECL charge for the period	2.5	0.7
Total impairment losses on loans and advances to customers at FVOCI	2.5	0.7
Impairment losses on loan commitments		
Net ECL charge/(credit) for the period	2.1	(0.2)
Total impairment losses on loan commitments	2.1	(0.2)
Total impairment losses on financial assets	33.4	16.7

Further analysis of the net ECL charge/(credit) for the period in respect of loans and advances to customers at amortised cost, loans and advances to customers at FVOCI and loan commitments is provided in the credit risk section of the Interim Risk Report on page 26, 28 and 23, respectively.

Critical accounting judgements and estimates
The impairment of financial assets is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 6(a) and in the credit risk section of the Interim Risk Report starting on page 30.

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

Notes to the interim financial statements

13. Tax

The tax charge is based on the Group's estimate of the weighted average annual tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted average annual tax rate but are recognised in the relevant period. The estimated tax rate used in these condensed consolidated interim financial statements may differ from the Group's estimate of the tax rate for the annual financial statements.

During the period the following tax rate changes came into effect on 1 April 2023:

- As part of the Finance Act 2021, the UK corporation tax rate increased from 19% to 25%.
- As part of the Finance Act 2022, the banking surcharge decreased from 8% to 3% and the banking surcharge exempt amount increased from £25 million to £100 million.

The estimated average annual tax rate used for the six months ended 30 June 2023 is 25.8% (30 June 2022: 26.0%). The reduction in the tax rate used compared to the prior period is largely attributable to the tax rate changes outlined above, which act to increase the UK corporation tax rate, offset by a reduction to the banking surcharge. A further reason for the reduced tax rate is the impact of additional tax relief attributable to the higher coupon paid on the capital securities issued in October 2022.

Based on the above tax rates, the tax charge recognised in the statement of profit and loss for the six months ended 30 June 2023 is £34.8 million (30 June 2022: £27.7 million).

14. Loans and advances to customers

The following tables analyse the carrying amount of loans and advances to customers by loan classification and agreement type. Finance lease and instalment credit receivables are presented within loans and advances to customers at amortised cost.

	Loans and advances to customers at amortised cost				
As at 30 June 2023 (Unaudited)	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	**Loans and advances to customers at FVOCI £m**	**Total £m**
Loan receivables	**9,883.4**	**(119.5)**	**9,763.9**	**1,991.3**	**11,755.2**
Finance lease receivables	**32.4**	**(1.2)**	**31.2**	**–**	**31.2**
Instalment credit receivables	**397.0**	**(9.7)**	**387.3**	**–**	**387.3**
	10,312.8	**(130.4)**	**10,182.4**	**1,991.3**	**12,173.7**
Fair value adjustments for hedged risk			**(243.4)**	**(82.3)**	**(325.7)**
Total loans and advances to customers			**9,939.0**	**1,909.0**	**11,848.0**

	Loans and advances to customers at amortised cost				
As at 31 December 2022 (Audited)	Gross carrying amount £m	Loss allowance £m	Carrying amount £m	Loans and advances to customers at FVOCI £m	Total £m
Loan receivables	9,043.7	(99.6)	8,944.1	1,316.4	10,260.5
Finance lease receivables	39.7	(2.0)	37.7	–	37.7
Instalment credit receivables	381.3	(10.2)	371.1	–	371.1
	9,464.7	(111.8)	9,352.9	1,316.4	10,669.3
Fair value adjustments for hedged risk			(164.6)	(47.6)	(212.2)
Total loans and advances to customers			9,188.3	1,268.8	10,457.1

Additional analysis of the Group's loans and advances to customers at amortised cost and at FVOCI and the associated loss allowance is provided in the credit risk section of the Interim Risk Report starting on page 24 and 27, respectively.

Notes to the interim financial statements

14. Loans and advances to customers (continued)

Loans and advances to customers include the following pledged and transferred assets. Amounts represent the carrying amount (after loss allowance deducted).

- £1,731.1 million (31 December 2022: £1,602.3 million) positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £2,114.8 million (31 December 2022: £1,362.3 million) transferred to consolidated structured entities as part of securitisation programmes, which are pledged as collateral against debt securities in issue (see Note 15).

Loans and advances to customers also include loans offered under COVID-19 related business support schemes (Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme). Such loans have a carrying amount (after loss allowance deducted) of £21.5 million (31 December 2022: £31.6 million). The UK Government provides a guarantee to protect 80% of any post-recovery loss in the event of default on these loans. In the six months ended 30 June 2023, no new claims have been made against this guarantee. Amounts received during the current period against claims made in the previous period totalled £3.4 million and, as at 30 June 2023, there were no remaining amounts pending on claims made.

15. Securitisations and structured entities

Consolidated structured entities

During the six months ended 30 June 2023, the following transactions relating to consolidated structured entities took place:

- In June 2023, loans with a gross carrying amount (before loss allowance) of £677.6 million and a carrying amount (after loss allowance) of £676.7 million were transferred to Holbrook Mortgage Transaction 2023-1 plc. It was assessed that the Group controls this structured entity and it is therefore treated as a subsidiary by virtue of control (see Note 22). The transfer of loans did not meet the derecognition criteria and, accordingly, the loans continue to be recognised in their entirety in the statement of financial position. The structured entity simultaneously issued mortgage-backed debt securities of £677.6 million and £0.2 million of uncollateralised 'X' notes, all of which were retained by the Group and are eliminated on consolidation.
- BML, which was acquired in May 2023 (see Note 7), includes two consolidated structured entities relating to securitisation transactions, Genesis Mortgage Funding 2019-1 PLC and Genesis Mortgage Funding 2022-1 PLC. Balances associated with these acquired entities are reflected in the below table. It should be noted that Genesis Mortgage Funding 2019-1 PLC has no remaining balances at the reporting date and does not therefore feature in the table.

The following table summarises the carrying amount of securitised loans that continue to be recognised in the statement of financial position and the associated debt securities issued by consolidated structured entities.

	30 Jun 2023 (Unaudited)		31 Dec 2022 (Audited)	
	Loans and advances securitised £m	**Debt securities in issue £m**	Loans and advances securitised £m	Debt securities in issue £m
Wandle Mortgage Funding Limited	**111.4**	**118.0**	133.0	142.2
Ealbrook Mortgage Funding 2022-1 plc	**269.6**	**313.5**	321.8	354.6
Lanebrook Mortgage Transaction 2022-1 plc	**335.8**	**344.9**	340.2	349.6
Shawbrook Mortgage Funding 2022-1 plc	**524.4**	**536.9**	570.6	575.6
Holbrook Mortgage Transaction 2023-1 plc	**668.7**	**678.0**	–	–
Genesis Mortgage Funding 2022-1 PLC	**209.8**	**224.3**	–	–
	2,119.7	**2,215.6**	1,365.6	1,422.0
Less: loss allowance on securitised loans	**(4.9)**		(3.3)	
Less: held by the Group (and eliminated on consolidation)		**(1,896.8)**		(1,305.6)
Total recognised in statement of financial position	**2,114.8**	**318.8**	1,362.3	116.4

Unconsolidated structured entities

There were no securitisation transactions with unconsolidated structured entities during the reported period.

Critical accounting judgements

The assessments involved in determining whether the Group controls the structured entity and whether the loans meet the criteria to be derecognised are identified as involving critical accounting judgements. Additional details are provided in Note 6(d).

Notes to the interim financial statements

16. Investment securities

Six months ended 30 June 2023 (Unaudited)	Covered bonds £m	Debt securities £m	Total £m
As at 1 January 2023	**499.7**	**191.3**	**691.0**
Additions	**131.6**	**52.9**	**184.5**
Maturities	**(152.3)**	**–**	**(152.3)**
Other movements	**0.1**	**(5.1)**	**(5.0)**
As at 30 June 2023	**479.1**	**239.1**	**718.2**

Debt securities represent mortgage-backed debt securities, of which £120.8 million (31 December 2022: £126.4 million) were issued by unconsolidated structured entities as part of securitisation transactions that were retained by the Group.

Investment securities include pledged assets as follows:

- £79.3 million (31 December 2022: £79.3 million) positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.

The loss allowance for investment securities is immaterial, totalling less than £0.1 million in both reported periods.

17. Derivative financial instruments

Derivative financial instruments

Derivative financial instruments are used by the Group for risk management purposes to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes.

The following tables analyse the Group's derivative financial instruments by instrument type and whether the instrument is designated as a hedging instrument in a qualifying hedging relationship.

	Assets		Liabilities	
As at 30 June 2023 (Unaudited)	**Nominal amount £m**	**Carrying amount £m**	**Nominal amount £m**	**Carrying amount £m**
Instruments not in hedging relationships				
Interest rate swaps	**1,877.7**	**133.2**	**7,897.7**	**130.4**
Spot and forward foreign exchange swaps	**26.4**	**0.2**	**0.4**	**0.0**
Total instruments not in hedging relationships	**1,904.1**	**133.4**	**7,898.1**	**130.4**
Instruments in fair value hedging relationships				
Interest rate swaps	**5,516.2**	**377.8**	**4,629.0**	**58.1**
Balance guaranteed swaps	**185.3**	**12.3**	**–**	**–**
Total instruments in fair value hedging relationships	**5,701.5**	**390.1**	**4,629.0**	**58.1**
Instruments in cash flow hedging relationships				
Interest rate swaps	**1,127.0**	**33.7**	**280.0**	**2.6**
Total instruments in cash flow hedging relationships	**1,127.0**	**33.7**	**280.0**	**2.6**
Total derivative financial instruments	**8,732.6**	**557.2**	**12,807.1**	**191.1**

Notes to the interim financial statements

17. Derivative financial instruments (continued)

As at 31 December 2022 (Audited)	Assets		Liabilities	
	Nominal amount £m	Carrying amount £m	Nominal amount £m	Carrying amount £m
Instruments not in hedging relationships				
Interest rate swaps	1,327.5	63.1	9,081.8	60.9
Spot and forward foreign exchange swaps	–	–	18.6	0.1
Total instruments not in hedging relationships	1,327.5	63.1	9,100.4	61.0
Instruments in fair value hedging relationships				
Interest rate swaps	5,664.0	264.0	1,825.0	26.0
Total instruments in fair value hedging relationships	5,664.0	264.0	1,825.0	26.0
Instruments in cash flow hedging relationships				
Interest rate swaps	295.0	3.6	162.0	3.5
Total instruments in cash flow hedging relationships	295.0	3.6	162.0	3.5
Total derivative financial instruments	7,286.5	330.7	11,087.4	90.5

As part of the BML acquisition (see Note 7), the Group acquired derivative financial assets with a fair value of £15.1 million. This comprised balance guaranteed swaps held in fair value hedging relationships of £12.0 million and interest rate swaps not in hedging relationships of £3.1 million. As at 30 June 2023, the fair value of these acquired instruments were £12.3 million and £nil, respectively, the latter being closed during June 2023.

18. Intangible assets

Six months ended 30 June 2023 (Unaudited)	**Goodwill £m**	**Other intangible assets £m**	**Total £m**
Carrying amount as at 1 January 2023	**53.7**	**22.7**	**76.4**
Additions	**–**	**6.3**	**6.3**
Acquisitions through business combinations	**21.5**	**2.9**	**24.4**
Amortisation charge for the period	**–**	**(4.1)**	**(4.1)**
Carrying amount as at 30 June 2023	**75.2**	**27.8**	**103.0**

Other intangible assets predominantly comprises computer software, but also includes assets recognised on the acquisition of businesses, representing brands and the benefit of business networks.

At the end of the period, the Group performed a review for indicators of impairment and none were identified. Consequently, impairment testing has not been reperformed as at 30 June 2023.

Notes to the interim financial statements

19. Provisions

Six months ended 30 June 2023 (Unaudited)	Loss provision £m	Other provisions £m	Total £m
As at 1 January 2023	**0.5**	**5.5**	**6.0**
Provisions utilised	**–**	**(5.2)**	**(5.2)**
Provisions made	**2.1**	**12.8**	**14.9**
As at 30 June 2023	**2.6**	**13.1**	**15.7**

Loss provision
The loss provision represents the loss allowance on loan commitments. Provisions made represent the net ECL charge for the period on loan commitments and is recognised in impairment losses on financial assets in the statement of profit and loss (see Note 12).

Other provisions
Other provisions represent provisions made in relation to customer remediation and conduct issues. Provisions made are recognised in provisions in the statement of profit and loss.

Provisions made in the current period predominantly relates to timeshare complaints. The Group has received a number of complaints from customers about holiday ownership (timeshare) products, where the Group provided finance to customers to fund the purchase of those products. While the Financial Ombudsman Service had previously not upheld the majority of such complaints that were referred to it, in November 2021, they subsequently issued a final decision on one such complaint that was found in the customer's favour. The Group commenced a legal challenge of this decision by way of judicial review that was determined in May 2023. While the Group was ultimately unsuccessful in its challenge, the court found that the Financial Ombudsman Service made a number of errors of law in reaching its final decision and concluded each complaint must be carefully considered on its own individual facts.

In total, the Group has advanced loans of c. £200 million to customers in relation to timeshare financing. However, the issues referred to above affect a smaller group of customers, as referenced in the judicial review judgement, relating to 'fractional' timeshare products, where it is alleged that the timeshare product was sold as an investment. Based on the information available at the reporting date, the Group has recognised a provision of £11.4 million, reflecting the best estimate of probable outflows associated with timeshare claims. Ultimately redress will depend on claim rates and agreement of potential redress methodology, the cost of which will be dependent on a number of factors, taking into account the nature of the timeshare asset and the benefits received whilst owned. Presently, discussions are ongoing with the Financial Ombudsman Service in relation to redress methodology and the Group will continue to closely monitor the situation; however at this time, the Group believes the provision recognised is adequate and considers the appropriate recourse. Further information regarding an associated contingent liability is provided in Note 24.

The Group has commenced work to pursue recoveries from either original suppliers or, failing that, the Group's insurers, however, in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', such reimbursement cannot be recognised as an asset unless it is virtually certain. The Group typically does not deem a reimbursement claim to be virtually certain until it has been accepted by the other party. At this point, the Group therefore discloses a contingent asset for reimbursements (see Note 24). In accordance with IAS 37, any recoveries from suppliers or insurers will be recognised in the statement of profit and loss within provisions.

Critical accounting judgements and estimates
The calculation of other provisions relating to customer remediation and conduct issues is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 6(b).

Notes to the interim financial statements

20. Financial assets and financial liabilities

(a) Classification of financial assets and financial liabilities

The following table analyses the carrying amount of the Group's financial assets and financial liabilities by measurement classification. There were no reclassifications between classification categories during the reported period.

	30 Jun 2023 (Unaudited)				31 Dec 2022 (Audited)			
	Amortised cost £m	**FVOCI £m**	**Mandatorily at FVTPL £m**	**Carrying amount £m**	Amortised cost £m	FVOCI £m	Mandatorily at FVTPL £m	Carrying amount £m
Financial assets								
Cash and balances at central banks	**1,949.5**	**–**	**–**	**1,949.5**	2,037.1	–	–	2,037.1
Loans and advances to banks	**434.3**	**–**	**–**	**434.3**	263.6	–	–	263.6
Loans and advances to customers[1]	**9,939.0**	**1,909.0**	**–**	**11,848.0**	9,188.3	1,268.8	–	10,457.1
Investment securities	**718.2**	**–**	**–**	**718.2**	691.0	–	–	691.0
Derivative financial assets	**–**	**–**	**557.2**	**557.2**	–	–	330.7	330.7
Total financial assets	**13,041.0**	**1,909.0**	**557.2**	**15,507.2**	12,180.0	1,268.8	330.7	13,779.5
Financial liabilities								
Amounts due to banks	**1,626.2**	**–**	**–**	**1,626.2**	1,498.7	–	–	1,498.7
Customer deposits	**12,101.0**	**–**	**–**	**12,101.0**	10,914.5	–	–	10,914.5
Derivative financial liabilities	**–**	**–**	**191.1**	**191.1**	–	–	90.5	90.5
Debt securities in issue	**318.8**	**–**	**–**	**318.8**	116.4	–	–	116.4
Lease liabilities[2]	**7.3**	**–**	**–**	**7.3**	7.4	–	–	7.4
Subordinated debt liability	**96.8**	**–**	**–**	**96.8**	96.8	–	–	96.8
Total financial liabilities	**14,150.1**	**–**	**191.1**	**14,341.2**	12,633.8	–	90.5	12,724.3

(b) Fair value of financial assets and financial liabilities

The valuation techniques applied by the Group to calculate the fair values of its financial assets and liabilities remain unchanged from the year ended 31 December 2022, as detailed in Note 38(b) of the 2022 Annual Report and Accounts.

The Group uses a fair value hierarchy that reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy, summarised as follows:

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

In accordance with IFRS 7 'Financial Instruments: Disclosures', fair value disclosures are not required for lease liabilities. Accordingly, lease liabilities are not included in the following fair value disclosures.

[1] The loans and advances to customers balance includes finance lease and instalment credit receivables, which are measured in accordance with IFRS 16 'Leases'. These are included in the amortised cost column.

[2] Lease liabilities, which are measured in accordance with IFRS 16 'Leases', are included in the amortised cost column.

Notes to the interim financial statements

20. Financial assets and financial liabilities (continued)

Financial assets and financial liabilities measured at amortised cost

The following table analyses the Group's financial assets and financial liabilities measured at amortised cost into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the reported period.

			30 Jun 2023 (Unaudited)			31 Dec 2022 (Audited)
	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	–	–	1,949.5	–	–	2,037.1
Loans and advances to banks	–	434.3	–	–	263.6	–
Loans and advances to customers	9,939.0	–	–	9,188.3	–	–
Investment securities	–	120.8	597.4	–	126.4	564.6
Financial liabilities at amortised cost						
Amounts due to banks	–	1,626.2	–	–	1,498.7	–
Customer deposits	–	12,101.0	–	–	10,914.5	–
Debt securities in issue	–	318.8	–	–	116.4	–
Subordinated debt liability	–	96.8	–	–	96.8	–

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial assets and financial liabilities measured at amortised cost.

For cash and balances at central banks and loans and advances to banks, the carrying amount is considered to be a reasonable approximation of fair value and, as such, these are not included in the following table.

		30 Jun 2023 (Unaudited)		31 Dec 2022 (Audited)
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets at amortised cost				
Loans and advances to customers	9,939.0	10,118.5	9,188.3	9,336.0
Investment securities	718.2	718.4	691.0	687.7
Financial liabilities at amortised cost				
Amounts due to banks	1,626.2	1,628.5	1,498.7	1,500.2
Customer deposits	12,101.0	12,061.4	10,914.5	10,871.8
Debt securities in issue	318.8	321.8	116.4	117.1
Subordinated debt liability	96.8	94.0	96.8	94.8

Notes to the interim financial statements

20. Financial assets and financial liabilities (continued)

Financial assets and financial liabilities measured at fair value
The following table analyses the Group's financial assets and financial liabilities measured at fair value into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the reported period. All financial assets and financial liabilities measured at fair value are recurring fair value measurements.

			30 Jun 2023 (Unaudited)			31 Dec 2022 (Audited)
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at fair value						
Loans and advances to customers	**1,909.0**	**–**	**–**	1,268.8	–	–
Derivative financial assets	**12.3**	**544.9**	**–**	–	330.7	–
Financial liabilities at fair value						
Derivative financial liabilities	**–**	**191.1**	**–**	–	90.5	–

Financial assets and financial liabilities measured at fair value: Level 3 analysis
The following section provides additional analysis of financial assets and financial liabilities measured at fair value that are categorised as Level 3.

Movements in the fair value of Level 3 financial assets and financial liabilities during the period are as follows:

Six months ended 30 June 2023 (Unaudited)	**Loans and advances to customers at FVOCI £m**	**Derivative financial assets £m**
As at 1 January 2023	**1,268.8**	**–**
Additions[1]	**662.7**	**12.0**
Net fair value gains/(losses) recognised in the statement of profit and loss	**(32.6)**	**1.4**
Net fair value gains recognised in other comprehensive income	**22.2**	**–**
Settlements/repayments	**(12.1)**	**(1.1)**
As at 30 June 2023	**1,909.0**	**12.3**

In relation to the above table:

- Net fair value gains/(losses) recognised in the statement of profit and loss are included in net gains/(losses) on derivative financial instruments and hedge accounting. The net losses attributable to loans and advances to customers at FVOCI represent unrealised losses on hedged items, which are largely offset by unrealised gains on the derivative financial instruments in the hedge accounting relationship. The net gains attributable to derivative financial assets represent unrealised gains.
- Net fair value gains recognised in other comprehensive income are included in net gains from changes in fair value in relation to the FVOCI reserve. All gains recognised are unrealised.

The Level 3 derivative financial assets represent the balance guaranteed swaps. The fair value calculation uses a Monte Carlo simulation of different interest rate paths, generating a series of notional paydowns in different scenarios. An average of these implied paydowns is then taken to generate the valuation of the swap. Reasonable changes in the model inputs are not expected to have a material impact on the calculated fair value. Consequently, additional information and sensitivity analysis is not provided for the Level 3 derivative financial assets.

For the Level 3 loans and advances to customers at FVOCI, the fair value is calculated using the discounted cash flow method. The significant unobservable inputs used in this calculation are the risk-adjusted discount rate, which is derived from cost of replacement assets based on period end closing swap rates, and the prepayment curve.

Critical accounting estimates
The valuation of loans and advances to customers at FVOCI is an area identified as involving critical accounting estimates. Additional details are provided in Note 6(c).

1 Additions include new financial assets originated or purchased (including those acquired through business combinations), additional drawdowns and accrued interest.

Notes to the interim financial statements

20. Financial assets and financial liabilities (continued)

The Group believes that the calculated fair values are appropriate, however, the following table provides sensitivity analysis to illustrate the impact that reasonably possible changes could have on the asset value and total equity recognised as at 30 June 2023. There would be no impact to the statement of profit and loss as a result of these changes.

Change in significant unobservable input (Unaudited)	**Increase/(decrease) to asset value and FVOCI reserve £m**
Decrease in discount rate by 50 bps	**27.6**
Increase in discount rate by 50 bps	**(26.9)**
Decrease in prepayment curve by 5%	**4.6**
Increase in prepayment curve by 5%	**(2.7)**

21. Notes to the statement of cash flows

Net change in operating assets

For the six months ended 30 June (Unaudited)	**2023 £m**	2022 £m
Increase in mandatory deposits with central banks	**(4.6)**	(3.4)
Increase in loans and advances to customers	**(1,093.7)**	(966.4)
Increase in derivative financial assets	**(191.6)**	(99.7)
Increase in operating lease assets	**(1.4)**	(3.4)
Increase in other assets	**(3.4)**	(4.7)
Decrease in assets held for sale	**–**	299.7
Increase in operating assets	**(1,294.7)**	(777.9)

Net change in operating liabilities

For the six months ended 30 June (Unaudited)	**2023 £m**	2022 £m
Increase in customer deposits	**1,186.5**	817.8
Increase/(decrease) in other provisions	**7.6**	(2.7)
Increase in derivative financial liabilities	**100.6**	14.6
(Decrease)/increase in other liabilities	**(20.1)**	11.0
Increase in operating liabilities	**1,274.6**	840.7

Cash and cash equivalents

	30 Jun 2023 (Unaudited) £m	31 Dec 2022 (Audited) £m
Cash and balances at central banks	**1,949.5**	2,037.1
Less: mandatory deposits with central banks	**(34.2)**	(29.6)
Loans and advances to banks	**434.3**	263.6
Total cash and cash equivalents	**2,349.6**	2,271.1

Cash and cash equivalents includes:

- £271.6 million (31 December 2022: £155.5 million) of cash collateral paid against derivative contracts.
- £100.9 million (31 December 2022: £59.5 million) of securitisation cash, which represents the restricted cash balances of consolidated structured entities.

The loss allowance for both cash and balances at central banks and loans and advances to banks is immaterial, totalling less than £0.1 million in both reported periods.

Notes to the interim financial statements

22. Subsidiary companies

Full details of subsidiary companies included in the Group are detailed in Note 43 of the 2022 Annual Report and Accounts. Changes to subsidiary companies during the six months ended 30 June 2023 are summarised below.

Wholly owned subsidiary companies
On 31 May 2023, BML became a wholly owned subsidiary of Shawbrook Bank Limited, the Group's principal subsidiary (see Note 7). Company details are as follows:

- **Bluestone Mortgages Limited:** Company number: 02305213. Country of incorporation: England and Wales. Registered address: 3rd Floor, 22 Chancery Lane, London, United Kingdom, WC2A 1LS. Principal activity: Mortgage finance.

BML has four wholly owned subsidiary companies[1], all of which become indirect subsidiary companies of the Group as part of the acquisition. These are:

- Bluestone Mortgage Finance No. 3 Limited
- Bluestone Mortgage Finance No. 5 Limited
- Bluestone Mortgage Retention Finance No. 1 Limited
- Bluestone Mortgage Retention Finance No. 3 Limited

There have been no other changes to wholly owned subsidiaries during the six months ended 30 June 2023.

Subsidiaries by virtue of control
On 29 June 2023, the following structured entity became a subsidiary of the Group by virtue of control in relation to a securitisation transaction (see Note 15). Shares of this entity are ultimately beneficially owned through an independent trust. However, for accounting purposes, the entity is controlled by the Group and, as such, it is treated as a subsidiary and is fully consolidated.

- **Holbrook Mortgage Transaction 2023-1 plc:** Company number: 14859205. Country of incorporation: England and Wales. Registered address: 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. Principal activity: Mortgage finance.

As detailed above, on 31 May 2023, BML became a subsidiary of the Group. BML has two subsidiary companies by virtue of control, both of which become indirect subsidiaries by virtue of control of the Group as part of the acquisition. These are:

- Genesis Mortgage Funding 2019-1 PLC
- Genesis Mortgage Funding 2022-1 PLC

The liquidation process of Shawbrook Mortgage Funding 2019-1 plc is progressing, but has not concluded and it therefore remains a subsidiary as at 30 June 2023.

There have been no other changes to subsidiaries by virtue of control during the six months ended 30 June 2023

23. Related party transactions

Information about related parties of the Group are detailed in Note 44 of the 2022 Annual Report and Accounts.

During the six months ended 30 June 2023, with the exception of the new subsidiary companies detailed in Note 22, there have been no significant changes in related parties, or significant new transactions with related parties, that have had a material effect on the financial position or performance of the Group.

Related party transactions during the six months ended 30 June 2023 remain similar in nature to those disclosed for the year ended 31 December 2022.

24. Contingent liabilities and contingent assets

Contingent liabilities identified as at 30 June 2023 are unchanged from those previously disclosed in Note 47 of the 2022 Annual Report and Accounts, with the Group continuing to have possible liabilities, that cannot be quantified with any certainty, in relation to Section 75 and Section 140A of the Consumer Credit Act.

In the 2022 Annual Report and Accounts, the Group provided additional information about one specific matter of note, timeshare complaints. An update regarding this matter is provided below.

Timeshare complaints
The Group has received a number of complaints from customers about holiday ownership (timeshare) products and as at 30 June 2023, the Group has recognised a provision of £11.4 million in relation to a specific sub-set of such customer complaints (see Note 19). There is potential for further liabilities from another customer sub-set, which were not subject to the judicial review, however, based on current evidence, the level of uncertainty regarding the outcome means the criteria to be recognised as a provision are not judged to have been met. The Group has undertaken a high-level estimate of possible redress using an assumed claim and redress rate and applied it to the non-provisioned timeshare loan book. This suggests further potential remediation costs of up to £14 million (in addition to the £11.4 million already recognised as a provision), but ultimately redress would depend on claim and uphold rates and agreement on redress remedies.

The Group has insurance cover in place that it believes would substantially recover any remediation costs incurred in relation to such timeshare claims. Discussions are ongoing regarding reimbursement, however, in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', such reimbursement cannot be recognised as an asset unless it is virtually certain. The Group typically does not deem a reimbursement claim to be virtually certain until it has been accepted by the other party. Consequently, at this point in time, the associated reimbursement claim is deemed to be a contingent asset, which leads to a timing difference when compared to the recognition of the provision for remediation costs.

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[1] Note that, Bluestone Mortgage Finance No. 4 Limited, which was a wholly owned subsidiary of BML, was dissolved in April 2023 before the completion of the BML acquisition.

Notes to the interim financial statements

25. Events after the reporting period

There have been no significant events between 30 June 2023 and the date of approval of the Interim Financial Report that require a change or additional disclosure in the condensed consolidated interim financial statements.

Other information

Abbreviations

Throughout this document:

'Company' refers to:	Shawbrook Group plc
'Group' refers to:	the 'Company' and its subsidiaries
'Shawbrook' refers to:	the 'Group'
'Shareholder' refers to:	Marlin Bidco Limited

The following abbreviations are used within this document:

API	Application programme interface	**LCR**	Liquidity coverage ratio
BML	Bluestone Mortgages Limited	**LGD**	Loss given default
bps	Basis point	**MI**	Management information
CET1	Common Equity Tier 1	**NSFR**	Net stable funding ratio
COVID-19	Coronavirus disease	**PD**	Probability of default
CRD V	Capital Requirements Directive	**PMA**	Post-model adjustment
CRR II	Capital Requirements Regulation	**POCI**	Purchased or originated credit-impaired
ECL	Expected credit loss	**PRA**	Prudential Regulation Authority
EIR	Effective interest rate	**SICR**	Significant increase in credit risk
EPC	Energy performance certificate	**SMEs**	Small and medium-sized enterprises
ESG	Environmental, social and governance	**SMF**	Senior Management Function
FVOCI	Fair value through other comprehensive income	**TCFD**	Task Force on Climate-related Financial Disclosures
FVTPL	Fair value through profit or loss	**TFSME**	Term Funding Scheme with additional incentives for SMEs
IAS	International Accounting Standards	**TML**	The Mortgage Lender Limited
IFRS	International Financial Reporting Standards	**UK**	United Kingdom
ISAs	Individual Savings Account		

Time periods referred to within this document are defined as follows:

FY	Full year: 12 months from 1 January to 31 December
H1	First half: six month period from 1 January to 30 June
H2	Second half: six month period from 1 July to 31 December
Q1	First quarter: three month period from 1 January to 31 March
Q2	Second quarter: three month period from 1 April to 30 June
Q3	Third quarter: three month period from 1 July to 30 September
Q4	Fourth quarter: three month period from 1 October to 31 December

Performance indicators

Certain financial measures disclosed in the Interim Financial Report do not have a standardised meaning prescribed by international accounting standards and may not therefore be comparable to similar measures presented by other issuers. These measures are considered 'alternative performance measures' (non-GAAP financial measures) and are not a substitute for measures prescribed by international accounting standards. Definitions of financial performance indicators referred to in the Strategic Report (in alphabetical order) are set out below:

Average principal employed	The average of monthly closing loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment.
Common Equity Tier 1 (CET1) capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of risk	Impairment losses on financial assets, divided by, average principal employed.
Cost to income ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, net operating income.
Gross asset yield	Net operating income less interest expense and similar charges, divided by, average principal employed.
Leverage ratio	Total Tier 1 capital, divided by, total leverage ratio exposure measure.
Liability yield	Interest expense and similar charges, divided by, average principal employed.
Liquidity coverage ratio	Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario.
Loan book	The sum of loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and the carrying amount of assets on operating leases included in property, plant and equipment.
Management expenses ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, average principal employed.
Net interest margin	Net operating income, divided by, average principal employed.
Return on lending assets before tax	Profit before tax, divided by, average principal employed.
Return on tangible equity	Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. *'Average tangible equity'* is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two.
Risk-weighted assets	A measure of assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1.
Total capital ratio	Total regulatory capital, divided by, risk-weighted assets.
Total Tier 1 capital ratio	Total Tier 1 capital, divided by, risk-weighted assets.
Wholesale funding	The sum of amounts due to banks and debt securities in issue.

[1] For the purpose of this calculation, loans and advances to customers includes both loans measured at amortised cost and loans at FVOCI, along with any loans transferred to assets held for sale, which are still considered to be part of the Group's overall loan book until derecognised.

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