

# CYBG PLC

## PRELIMINARY FINANCIAL RESULTS



CYBG

# Strategic progress



**David Duffy**

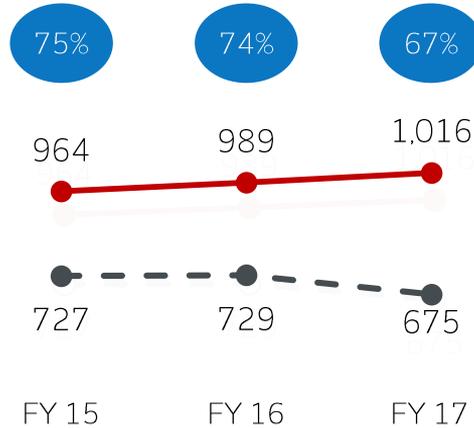
Chief Executive Officer

## CLEAR STRATEGIC DIRECTION...



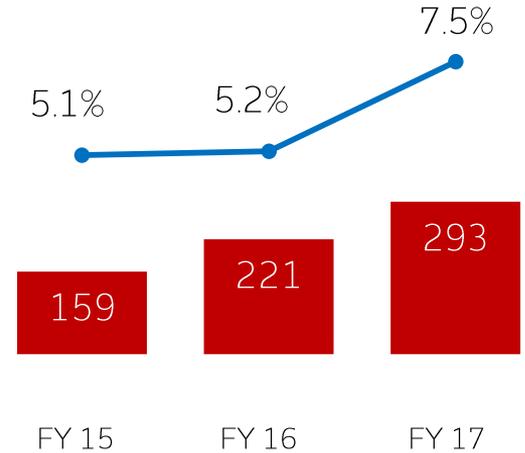
Underpinned by digital transformation

## ...DRIVING REVENUE / COST JAWS...



- % Underlying cost : income ratio
- Underlying operating income
- - - Underlying operating expenses

## ...AND ULTIMATELY RETURNS



- Underlying RoTE
- Underlying PBT

# BUSINESS TRANSFORMATION CONTINUES TO ENHANCE THE CUSTOMER EXPERIENCE

## GROWTH



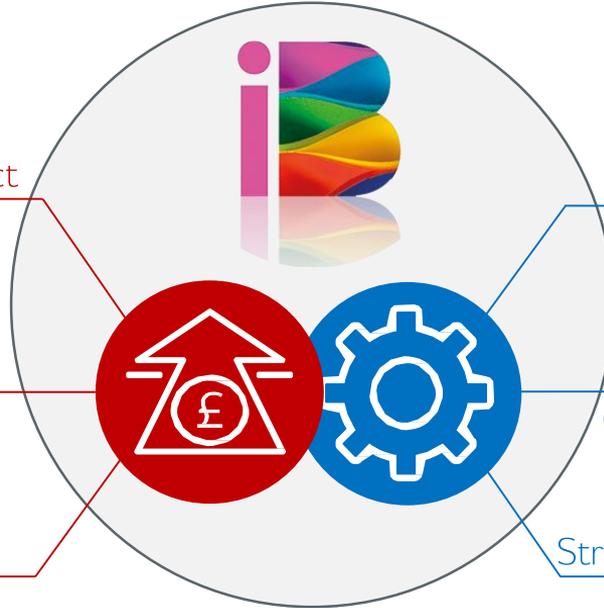
Expanded product & channel suite



New flagship branches



Fintech collaborations



Reduced site footprint



Procurement capability enhanced



Streamlined mortgage approval process



## EFFICIENCY

CYBG

# Financial results



**Ian Smith**

Chief Financial Officer

## STRONG PROFIT GROWTH

Income statement	Year to		Change
£m	30 Sep 2017	30 Sep 2016	FY17 vs. FY16
Net interest income	844	806	+5%
Non-interest income	172	183	(6)%
<b>Total operating income</b>	<b>1,016</b>	<b>989</b>	<b>+3%</b>
Total operating and administrative expenses	(675)	(729)	(7)%
<b>Operating profit before impairment losses</b>	<b>341</b>	<b>260</b>	<b>+31%</b>
Impairment losses on credit exposures	(48)	(39)	+23%
<b>Underlying profit on ordinary activities before tax</b>	<b>293</b>	<b>221</b>	<b>+33%</b>
<hr/>			
NIM	227 bps	226 bps	+1 bps
Cost of risk	14 bps	9 bps	+5 bps
Underlying cost income ratio	67%	74%	(7) %pts
Underlying RoTE	7.5%	5.2%	+2.3 %pts
Underlying EPS (pence)	21.5	16.2	+33%
Dividend per share (pence)	1.0	-	n/a

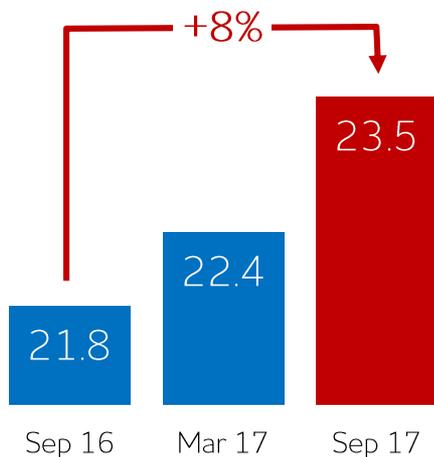
# FIRST STATUTORY PROFIT IN OVER 5 YEARS

Statutory profit	Year to	
	30 Sep 2017	30 Sep 2016
£m		
<b>Underlying profit on ordinary activities before tax</b>	<b>293</b>	<b>221</b>
Exceptional Items		
- Conduct charges	(58)	(51)
- Restructuring expense	(67)	(45)
- Gain on defined benefit pension scheme reforms	88	-
- Gain on disposal of Vocalink	20	-
- Other	(8)	(48)
<b>Statutory profit on ordinary activities before tax</b>	<b>268</b>	<b>77</b>
Tax charge	(86)	(241)
<b>Statutory profit for the period</b>	<b>182</b>	<b>(164)</b>

## SUSTAINABLE ASSET GROWTH AS PLANNED

## Mortgages

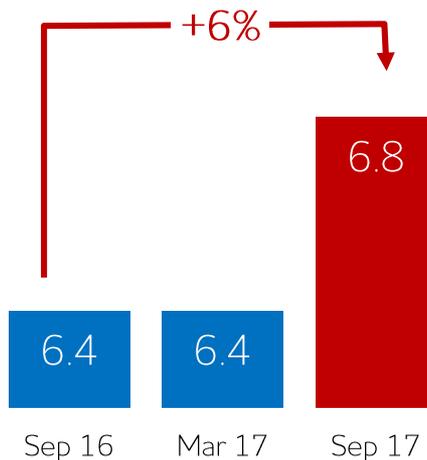
£bn



Sustainable growth  
ahead of market

## Core SME

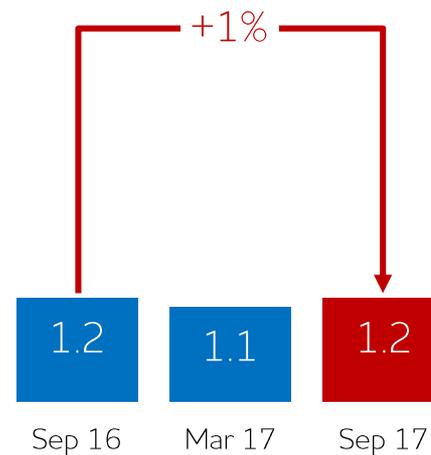
£bn



Strong new business  
volumes

## Unsecured personal

£bn



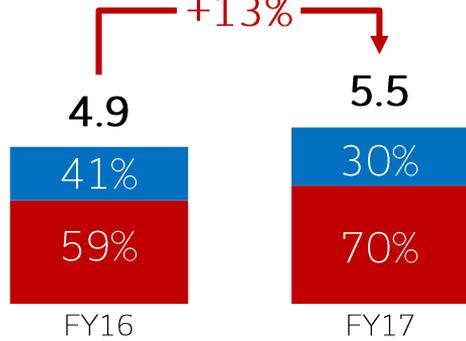
Disciplined origination in  
complex environment

# STRONG NEW BUSINESS FLOWS WITHIN RISK APPETITE

## Strong growth ahead of market

### Mortgage origination

£bn



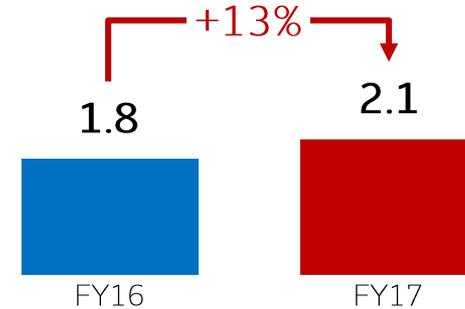
Front book LTV	69%	71%
Front book LTI	2.72	2.93

■ Owner occupied    ■ BTL

## Increased new business drawdowns

### SME drawdowns

£bn

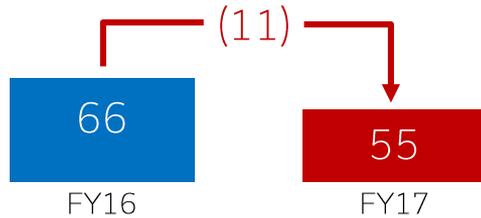


- Origination pace maintained: £2.1bn approvals (FY16: £2.2bn)
- Stable internal risk rating
- Lower average probability of default

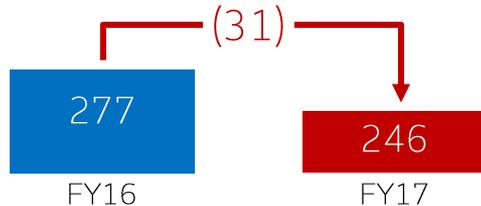
## PRICING REFLECTS COMPETITIVE ENVIRONMENT

Mortgage market continues to be competitive...

Front book mortgage swap rates  
(bps)

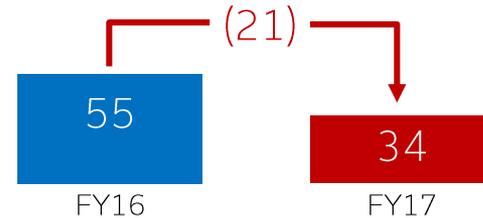


Mortgage front book GIM  
(bps)

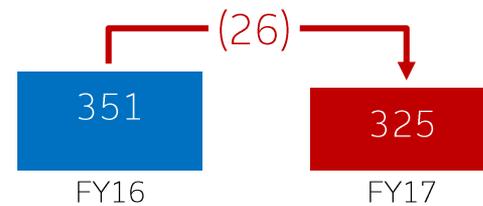


...though SME pricing remains robust

Average 3-month LIBOR  
(bps)



SME front book GIM  
(bps)

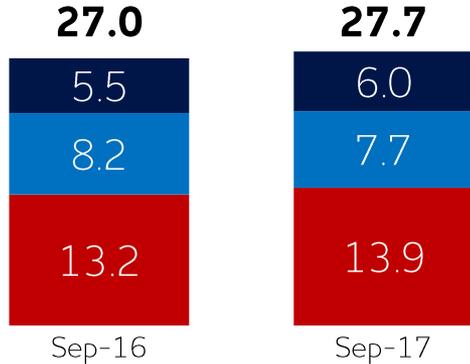


# MAINTAINING A BROAD MIX OF FUNDING SOURCES

## Restructured deposit portfolio...

### Deposit balances

£bn



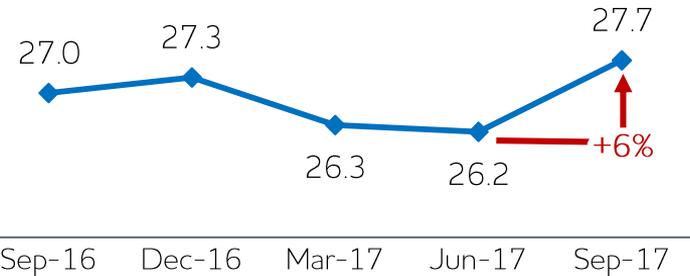
Cost (bps)	72	47
LDR	112%	115%

■ Current accounts ■ Savings ■ Term deposits

## ...with strong H2 deposit growth

### Deposit balances

£bn



## ...and lower funding costs

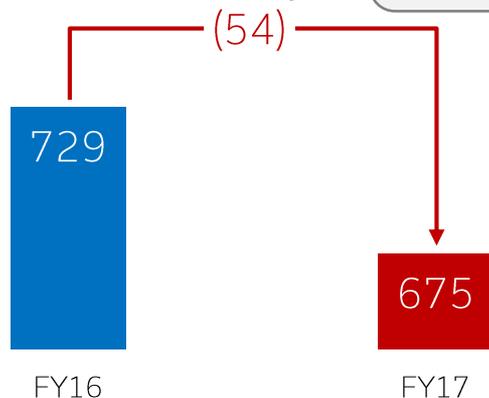
- Wholesale funding cost 151bps (FY16: 196bps)
- No TFS drawdowns in H2, £1.9bn drawn at 30-Sep
- Inaugural £300m MREL issuance completed in June

# COST SAVINGS RUNNING AHEAD OF SCHEDULE

## One year in, 2/3rds of initiatives delivered

### Underlying operating costs

£m

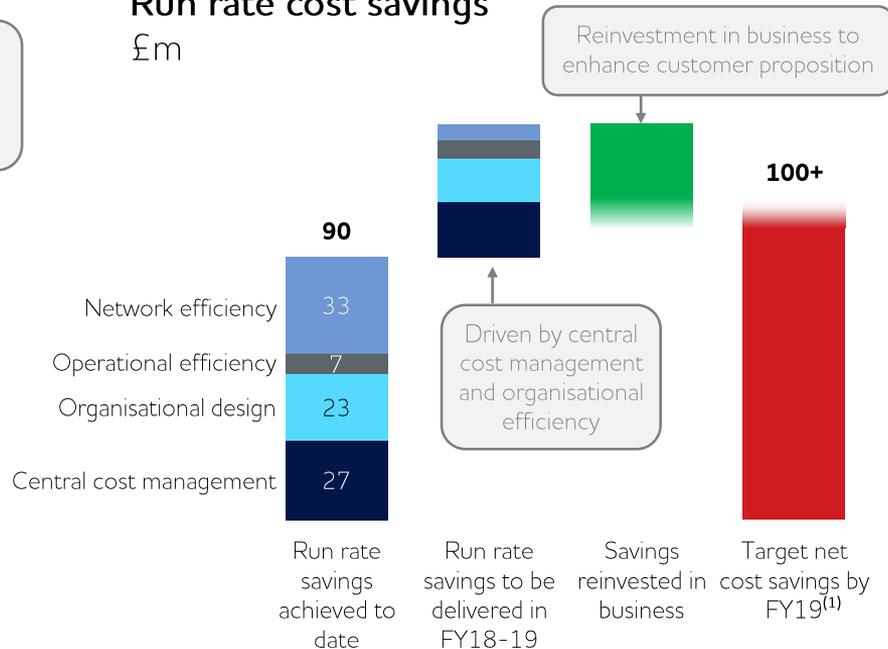


Run rate savings delivered: £90m provides cost momentum into FY18 and capacity for reinvestment

## Cost savings facilitating reinvestment

### Run rate cost savings

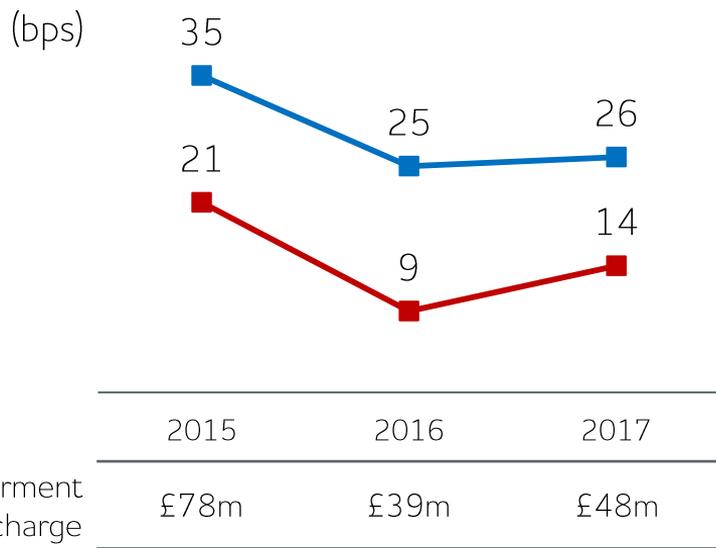
£m



# NO COMPROMISE ON ASSET QUALITY

## Credit performance remains stable...

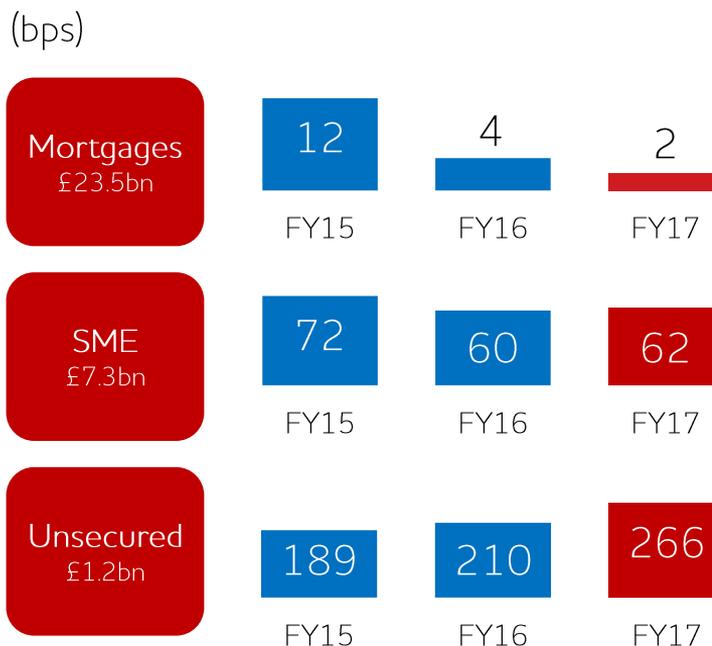
### Cost of risk <sup>(1)</sup>



—■ Net —■ Gross <sup>(2)</sup>

## ...across our key asset classes

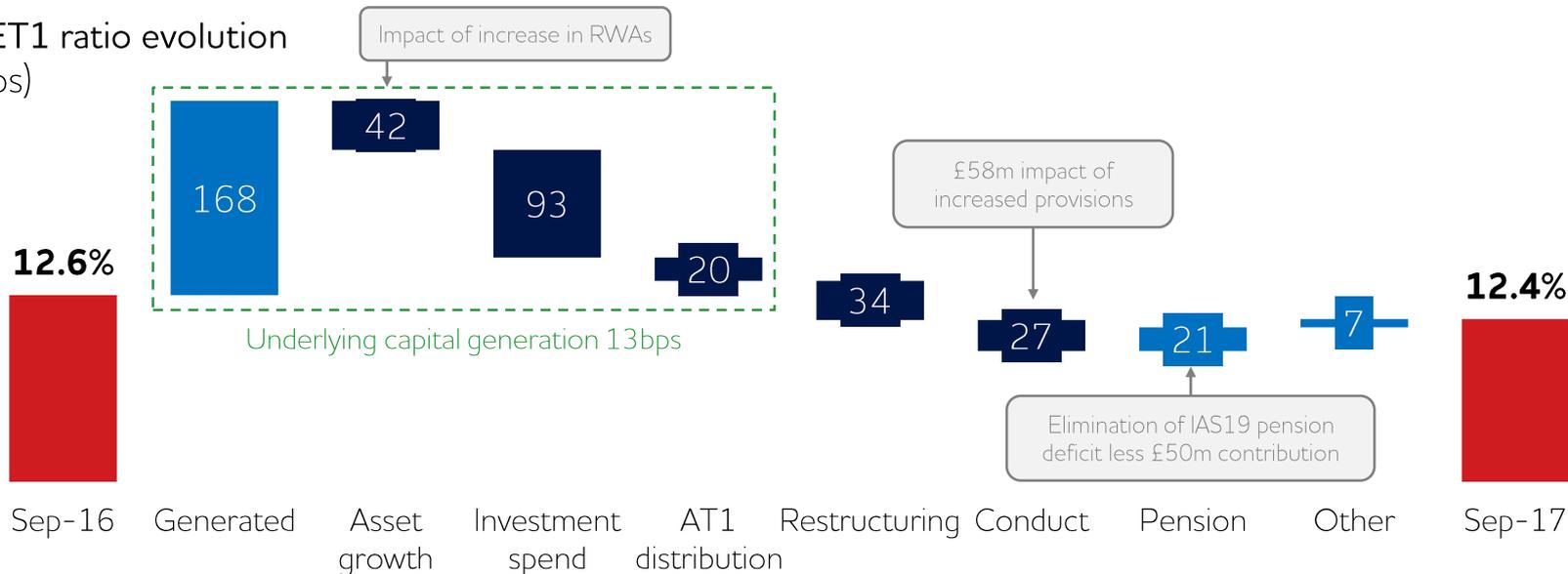
### Gross cost of risk <sup>(2)</sup>



(1) Cost of risk includes credit risk adjustment on loans at fair value  
 (2) Excluding provision releases/recoveries and debt sales

# CAPITAL GENERATION SUPPORTING GROWTH AND RESTRUCTURING

CET1 ratio evolution (bps)



18.2%	Total capital	17.9%
6.8%	Leverage ratio	6.3%

# OPTIMISING OUR CAPITAL

## Management action on pensions delivering clear benefits

DB scheme closed to future accruals

- Harmonised colleagues' pension benefits
- Cost savings reinvested in colleague rewards
- Scheme liabilities reduced
- Improves deficit, reduces capital risk

Triennial valuation agreed

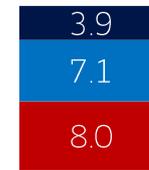
- Deficit reduced from £450m to £290m
- Contribution plan of c.£50m per annum from FY19 to FY23
- Route to fully-funded scheme agreed

## Targeted lending growth increased RWAs....

RWAs

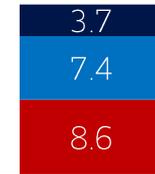
£bn

**19.0**



Sep-16

**19.7**



Sep-17

■ Retail mortgages ■ Business lending ■ Other

## ...with IRB programme on track

- Expectations for transition timeline and impact unchanged
  - Mortgage portfolio – 1 October 2018
  - Full bank – by 1 October 2019
- c.£5bn mortgage RWA reduction when IRB achieved <sup>(1)</sup>

Note: More detail in appendix, slide 29

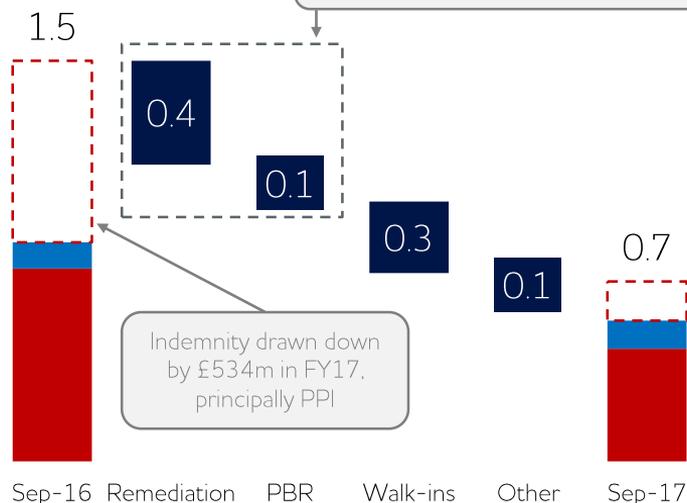
(1) Based on internal models and 31 March 2016 balance sheet

# FURTHER PROGRESS ON LEGACY CONDUCT

Management believe cover is sufficient...

## Unutilised cover

£bn



■ PPI provision ■ Other conduct provisions ▨ Indemnity

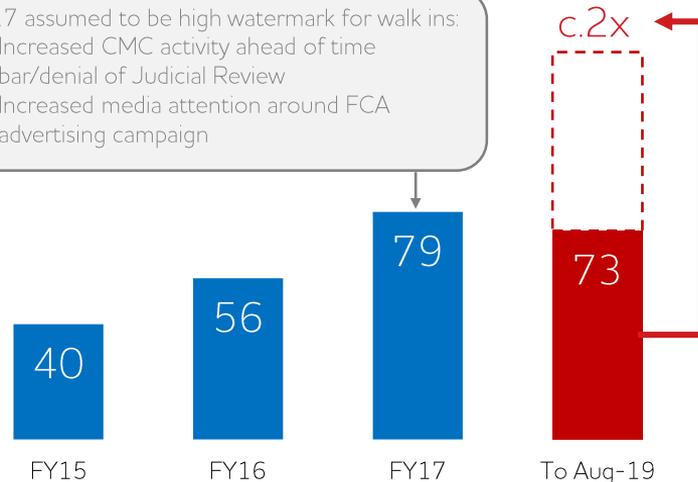
...based on updated assumptions

## PPI walk in complaints

'000

FY17 assumed to be high watermark for walk ins:

- Increased CMC activity ahead of time bar/denial of Judicial Review
- Increased media attention around FCA advertising campaign



■ Experience ■ Provision ▨ Indemnity

## FY18 AND MEDIUM TERM GUIDANCE

Metric	FY18 guidance
NIM	c.220bps
Underlying costs	< £650m
Loan growth	Mid-single digit %
CET1	12-13%
LDR <sup>(1)</sup>	<120%

Metric	Medium term guidance
RoTE	Double digit by FY19
CIR	55% - 58% by FY19
Loan growth	Mid single digit % CAGR to FY19
CET1	12-13%
LDR <sup>(1)</sup>	< 120%
Dividend	50% pay out ratio over time

Medium term guidance on track

CYBG

Hello  
Birmingham!



# Summary & outlook



**David Duffy**

Chief Executive Officer

## CONTINUING OUR EVOLUTION

Business transformation is delivering improved financial performance...

IPO<sup>(1)</sup>

FY 17

75%	UNDERLYING CTI	67%
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£159m	UNDERLYING PBT	£293m
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(£229m)	STATUTORY PROFIT	£182m
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5.1%	UNDERLYING RATE	7.5%
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£26.3bn	DEPOSITS	£27.7bn
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£28.8bn	LOANS	£32.0bn
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...and a **better bank** for customers and colleagues

- Clear, **customer-focused** strategy
- Expanded **channel and product** capability
- Reinvigorated **SME** business
- Reshaped **distribution** network
- Overhauled **colleague** proposition
- Embedded prudent **risk management** culture
- Built market-leading **digital platform**

# DELIVERING GROWTH BY LEVERAGING OUR STRONG BRANDS AND DIGITAL PLATFORM...

Three brands, one digital platform...



Dynamic, digital brand



Proud Scottish heritage since 1838



Powerful regional brand since 1859

...powering national customer growth



National Digital Presence

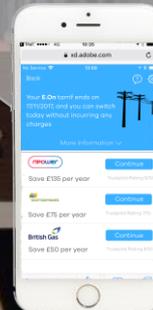
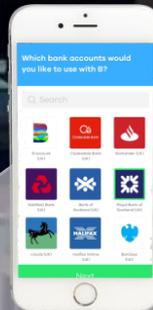


Expansion

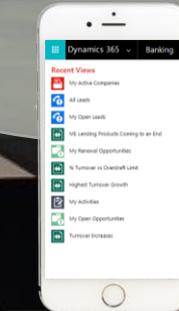
...AND WE'RE READY FOR THE  
**FUTURE TODAY**



B Secure



B Smart



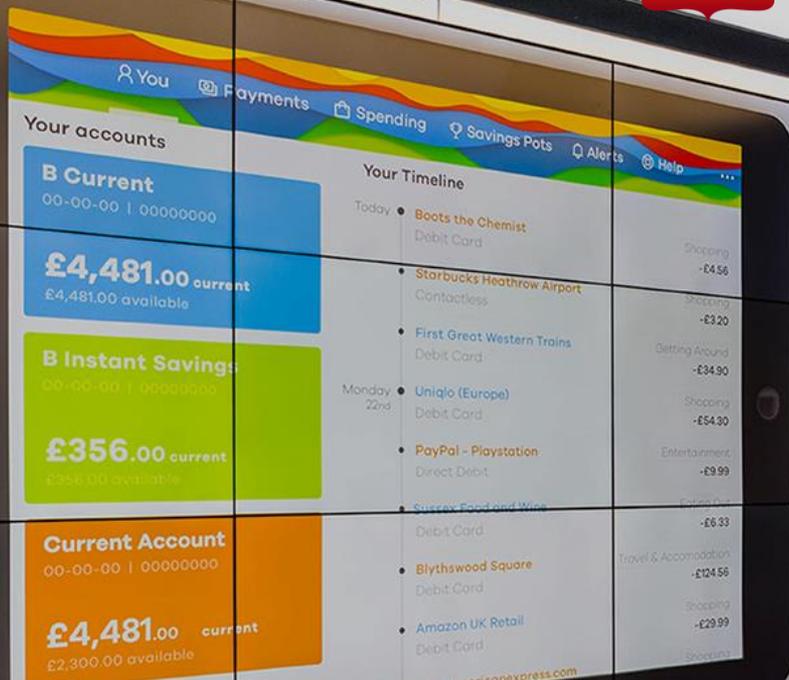
B Connected



B Traveller



B Money



Q&amp;A



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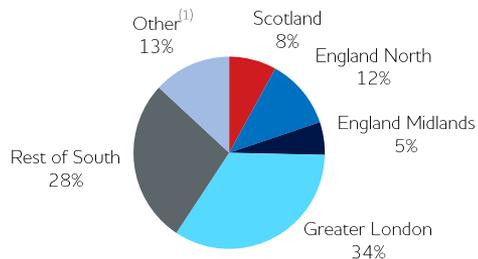
[www.cybg.com](http://www.cybg.com)

# Appendix

# MORTGAGE PORTFOLIO – 2017

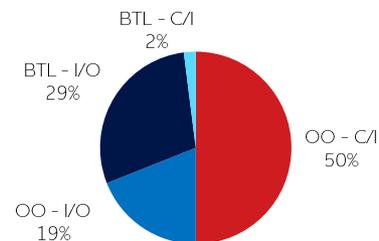
## Mortgage lending location

Gross new mortgage lending



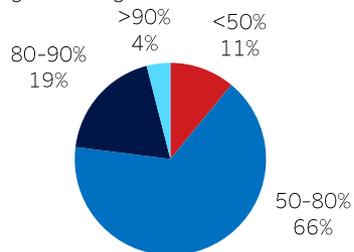
## Repayment and borrower profile

Gross new mortgage lending



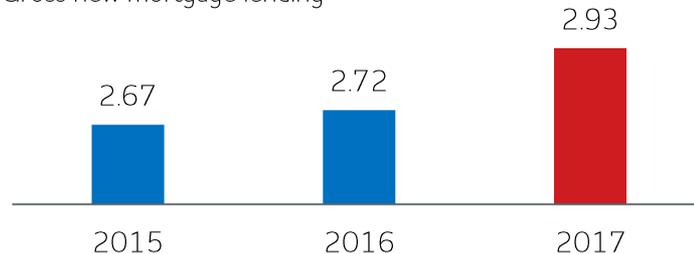
## LTV of gross new mortgage lending

Gross new mortgage lending



## Loan-to-income breakdown

Gross new mortgage lending <sup>(2)</sup>



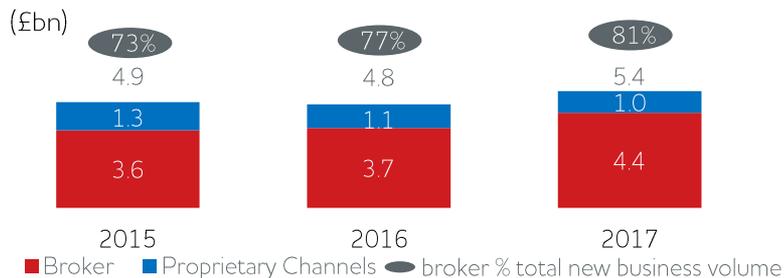
Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements

(1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

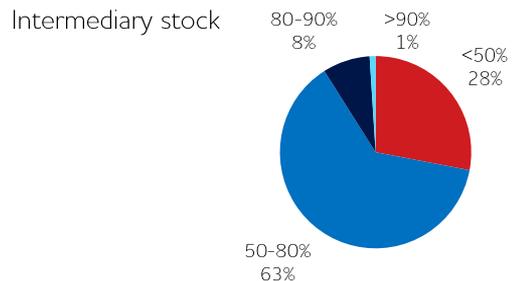
(2) Excludes BTL portfolio

# BROKER ORIGINATION – 2017

## Gross new mortgage lending volumes

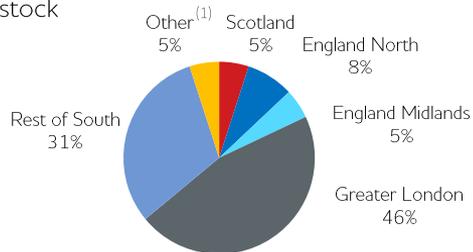


## Indexed LTV band (value)



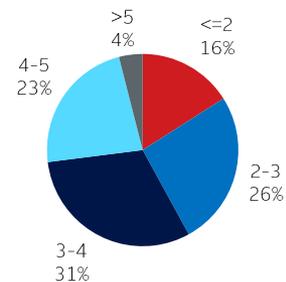
## Geographic split

Intermediary stock



## LTI split

Intermediary stock



Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements

(1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

# BTL LOAN BOOK – 2017

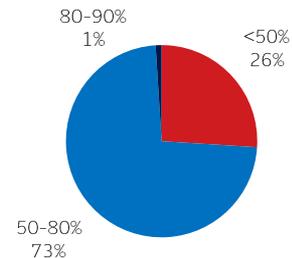
## BTL stock

(£bn)



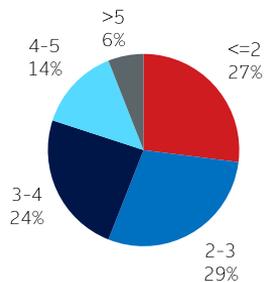
## Indexed LTV

Total BTL



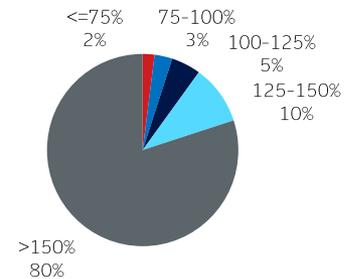
## LTI split

Total BTL



## Rent cover

New lending

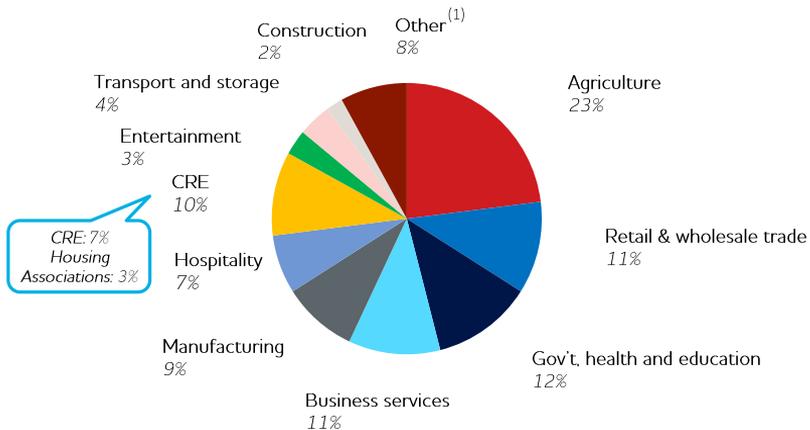


Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements

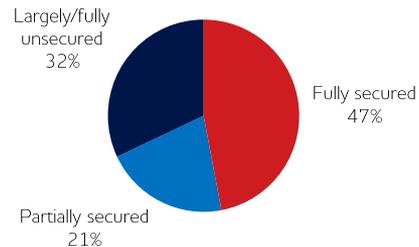
(1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

# SME LOAN BOOK – 2017

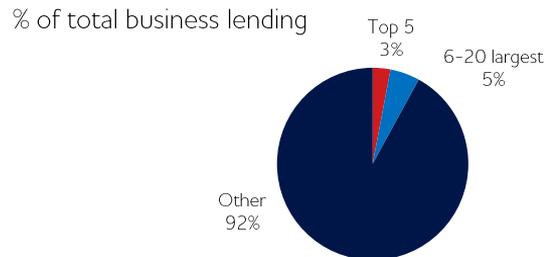
## SME book



## Business lending portfolio by collateral cover



## Business banking clients



# SIGNIFICANT PROGRESS ON DEFINED BENEFIT SCHEME

## Closure of DB scheme to future accruals

### IAS 19 impact

- P&L:
  - £88m exceptional gain (pre-tax)
- Balance sheet:
  - £88m positive impact to IAS19 position
  - Positive TNAV impact of £57m

### CET1 impact

- Elimination of the IAS19 deficit
  - Removal of £75m deficit has a positive CET1 impact
  - No capital benefit once in surplus, although surplus position protects CET1 ratio from future adverse actuarial movements
- Future contributions will therefore reduce capital:
  - Cash contributions reduce CET1
  - IAS 19 surplus increases are capital neutral
- Contributions are already included in CYBG's capital plan

## Triennial valuation

### Actuarial position

- Triennial valuation concluded by trustees of the DB scheme
- Deficit reduced from £450m to £290m
  - Agreement to close DB scheme delivered £131m reduction
- Value of contributions agreed with trustees pre-IPO is unchanged:
  - £50m in May 2017; plus
  - £50 million in each financial year 2019 to 2022; plus
  - £55 million in 2023

## BALANCE SHEET

£m	September 2017	September 2016
Mortgages	23,480	21,836
SME - Core Book	6,821	6,438
SME - Non-Core Book	504	720
Unsecured personal lending	1,162	1,153
<b>Total Customer Loans</b>	<b>31,967</b>	<b>30,147</b>
Liquid Assets and other	9,013	7,686
Other Assets	2,251	2,096
<b>Total Assets</b>	<b>43,231</b>	<b>39,929</b>
Customer Deposits	27,679	27,000
Wholesale Funding (excl. TFS)	6,702	5,810
TFS	1,900	-
Notes in Circulation	2,197	1,912
Other Liabilities	1,351	1,996
<b>Total Liabilities</b>	<b>39,829</b>	<b>36,718</b>
Equity and Reserves	3,402	3,211
<b>Liabilities and Equity</b>	<b>43,231</b>	<b>39,929</b>

## RWA

£m	September 2017	September 2016
Retail mortgages	8,646	7,998
Business lending	7,359	7,087
Other retail lending	932	915
Other lending	815	906
<b>Total credit risk</b>	<b>17,752</b>	<b>16,906</b>
Credit valuation adjustment	167	286
Operational risk	1,621	1,623
Counterparty risk	138	214
<b>Total RWAs</b>	<b>19,678</b>	<b>19,029</b>
<b>Total Loans</b>	<b>31,967</b>	<b>30,147</b>
<b>Credit RWAs / total loans</b>	<b>56%</b>	<b>56%</b>
<b>Total RWAs / Assets</b>	<b>46%</b>	<b>48%</b>

## CREDIT RATINGS

- CYBG is rated by S&P and Fitch. The Investment Grade ratings reflect each agency's Holding Company methodology
- CB PLC is rated Investment Grade by all 3 rating agencies

### Credit Rating Summary (November 2017) — CYBG PLC

Agency	Long-Term	Outlook	Short-term
S&P	BBB-	Stable	A-3
Fitch	BBB+	Stable	F2

### Credit Rating Summary (November 2017) — Clydesdale Bank PLC

Agency	Long-Term	Outlook	Short-term
S&P	BBB+	Stable	A-2
Fitch	BBB+	Stable	F2
Moody's	Baa2 <sup>(1)</sup>	Review for Upgrade	P-2

## FTE BREAKDOWN

	September 2017	September 2016	September 2015
Core FTE	5,739	6,313	6,848
Legacy conduct FTE	621	533	396
Total FTE	6,360	6,846	7,244

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