

CYBG PLC

INTERIM FINANCIAL RESULTS



CYBG



Strategic progress



David Duffy
Chief Executive Officer

STRONG PROGRESS IN DELIVERING OUR STRATEGY

Building a bank fit for the future...



Underpinned by digital transformation

...executing against our strategy...

+5%

annualised growth in lending

6%pts

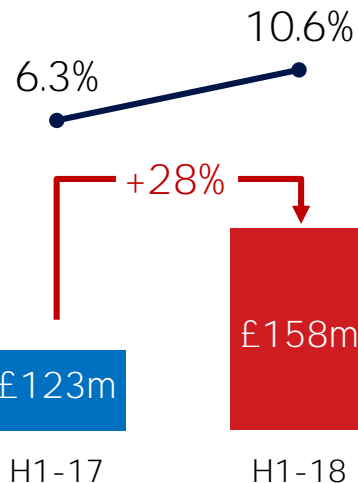
reduction in cost to income ratio (to 64%)

+27bps

underlying capital generation

...and delivering improved underlying profitability

Underlying PBT (£m) / Underlying RoTE



Financial results



Ian Smith

Chief Financial Officer

SIGNIFICANT INCREASE IN UNDERLYING PROFIT

Underlying P&L	Six months to		Change
£m	31 March 2018	31 March 2017	YoY
Net interest income	426	411	+4%
Non-interest income	77	86	(10)%
Total operating income	503	497	+1%
Total operating and administrative expenses	(323)	(348)	(7)%
Operating profit before impairment losses	180	149	+21%
Impairment losses on credit exposures	(22)	(26)	(15)%
Underlying profit on ordinary activities before tax	158	123	+28%
Net interest margin (NIM)	218 bps	226 bps	(8) bps
Cost of risk	13 bps	15 bps	(2) bps
Underlying cost income ratio	64%	70%	(6) %pts
Underlying return on tangible equity (RoTE)	10.6%	6.3%	+4.3 %pts
Underlying earnings per share (EPS)	15.5p	9.0p	+6.5p

STATUTORY EARNINGS IMPACTED BY LEGACY CONDUCT

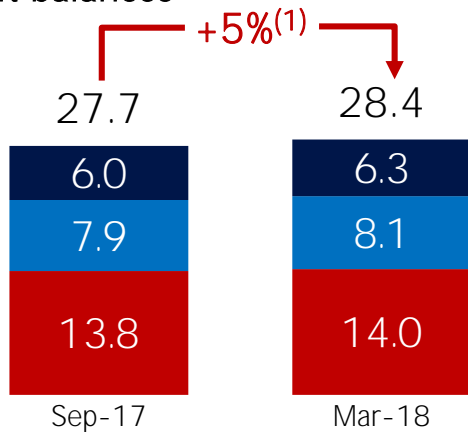
Statutory P&L	Six months to	
	31 March 2018	31 March 2017
£m		
Underlying profit on ordinary activities before tax	158	123
Exceptional Items		
- Conduct charges	(220)	(19)
- Business restructuring and similar expenses	(33)	(58)
Statutory (loss)/profit on ordinary activities before tax	(95)	46
Tax credit / (charge)	19	(16)
Statutory (loss)/profit for the period	(76)	30

BROAD BASED FUNDING, COST EFFECTIVE MIX

Growth in all deposit products...

Deposit balances

£bn



Cost⁽²⁾ (bps)

41	51
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LDR

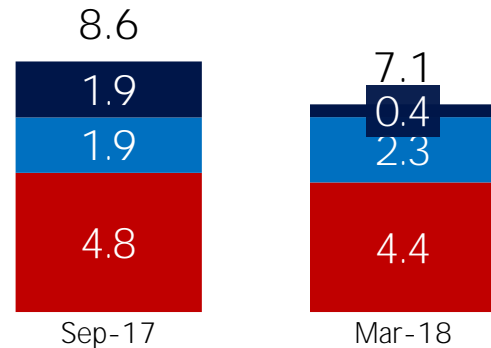
115%	115%
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■ Current accounts ■ Savings ■ Term deposits

...and optimising our wholesale funding mix

Wholesale balances

£bn



Cost⁽²⁾ (bps)

133	149
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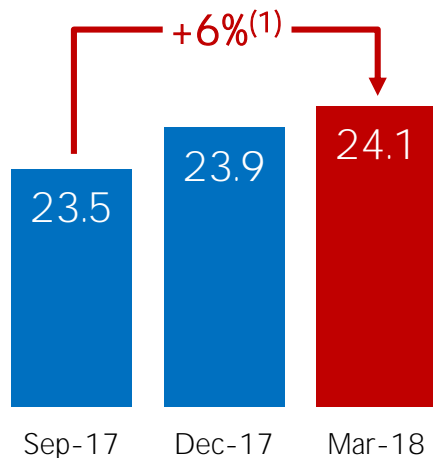
TFS (% of lending)

6%	7%
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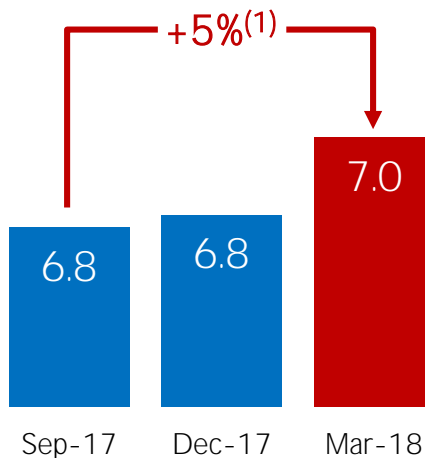
■ Debt securities ■ TFS ■ Due to other banks

(1) Annualised (2) Average cost of funds during six month period

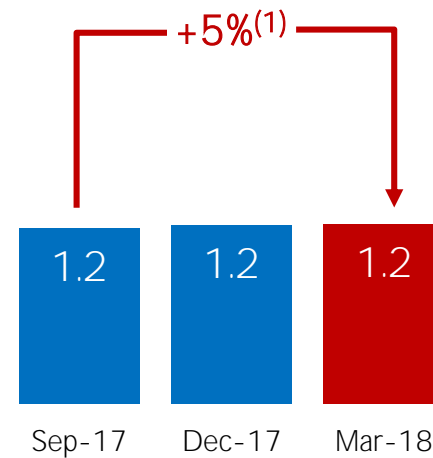
STRONG ASSET GROWTH ACROSS ALL SEGMENTS

Mortgages
£bn

Strong growth in
competitive market

Core SME
£bn

Continued strong new
business volumes

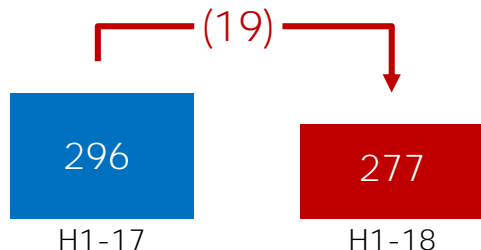
Unsecured personal
£bn

Improved capability
supporting origination

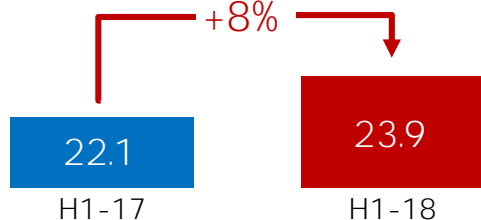
4% NII GROWTH – HIGHER BALANCES, MANAGING NIM

Mortgage market continues to be competitive...

Mortgage book average yield ⁽¹⁾
(bps)

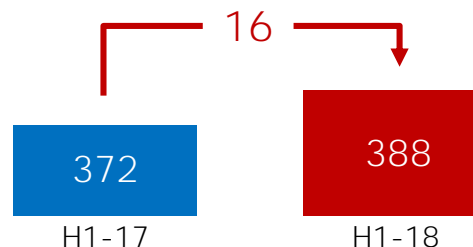


Mortgage book average balance ⁽²⁾
(£bn)

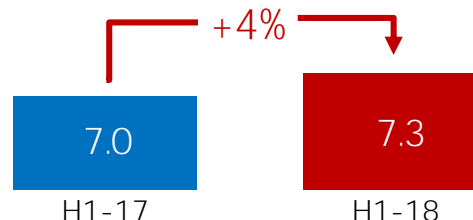


...though SME yield remains robust

SME book average yield ⁽¹⁾
(bps)



SME book average balance ⁽²⁾
(£bn)



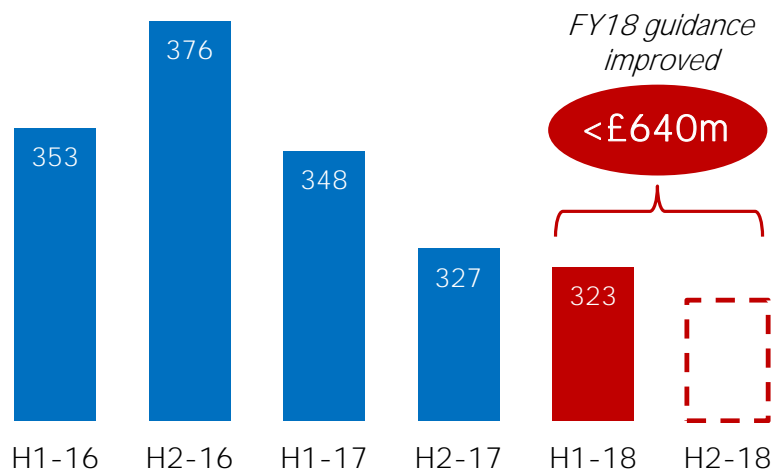
(1) Average yield is calculated by annualising the interest income/expense for the period and includes the effective interest rate of associated fees

(2) Average balances are calculated using the daily balances across the period.

COST SAVINGS RUNNING AHEAD OF SCHEDULE

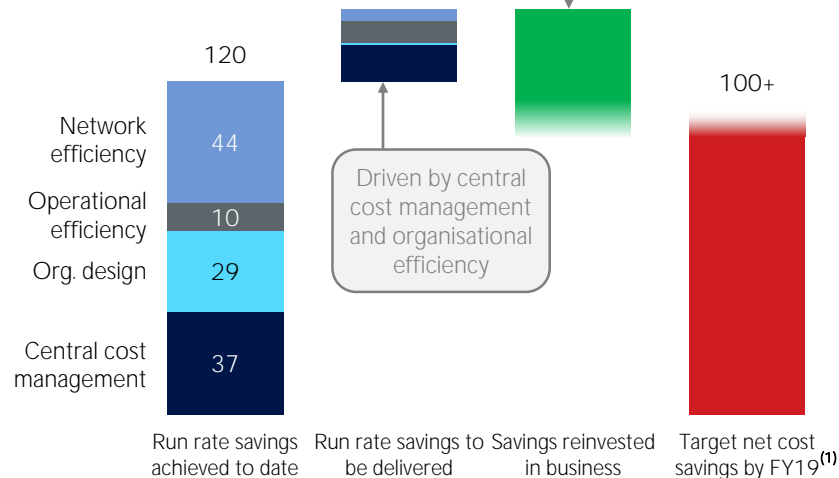
Cost programme is delivering absolute reductions...

Underlying operating costs
£m



...with cost savings facilitating reinvestment

Run rate cost savings
£m

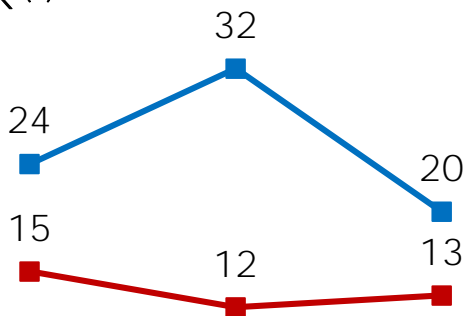


(1) Relative to FY16

STABLE ASSET QUALITY, LOW COST OF RISK

Solid credit performance...

Cost of risk ⁽¹⁾
(bps)



Impairment
charge

H1-17 H2-17 H1-18

£26m £22m £22m

—■— Net —■— Gross ⁽²⁾

...across all asset classes

Gross cost of risk ⁽²⁾
(bps)

Mortgages
£24.1bn

2
H1-17

3
H2-17

2
H1-18

SME
£7.4bn

55
H1-17

87
H2-17

37
H1-18

Unsecured
£1.2bn

253
H1-17

283
H2-17

272
H1-18

⁽¹⁾ Annualised cost of risk includes credit risk adjustment on loans at fair value

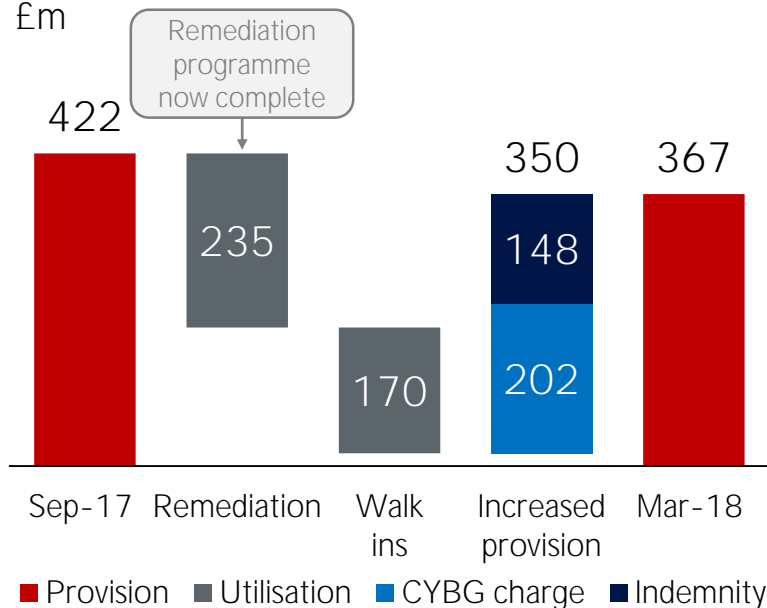
⁽²⁾ Annualised cost of risk excluding provision releases/recoveries, debt sales and credit risk adjustments on loans at fair value

SIGNIFICANT ACTION ON PPI

Utilisation in period required a provision top-up...

PPI provision

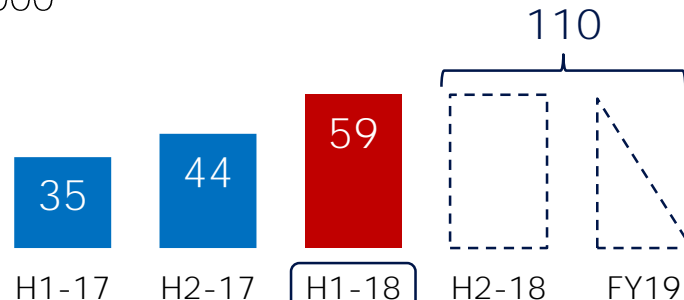
£m



...incorporating a revised view of future complaints

PPI walk in complaints

'000

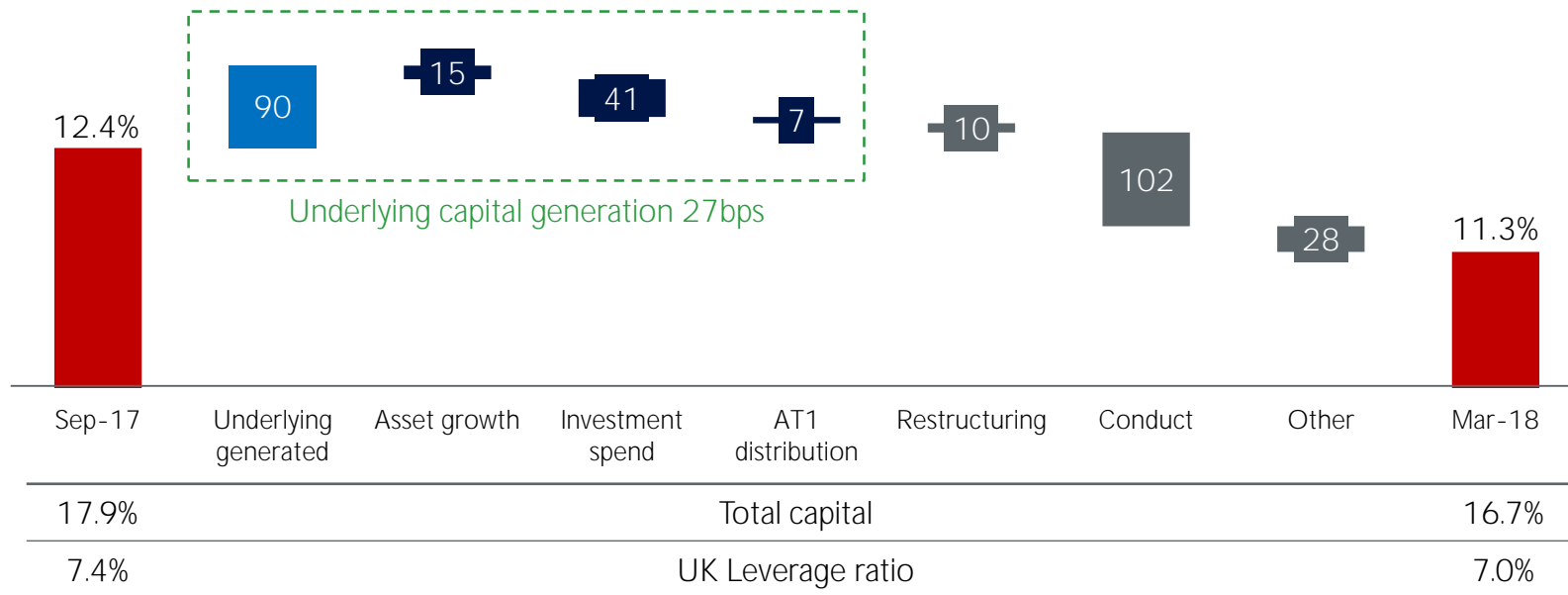


Elevated complaints driven by:

- CMC activity ahead of fee-capping and cold-calling limit
- Heightened media coverage
- FCA advertising campaign

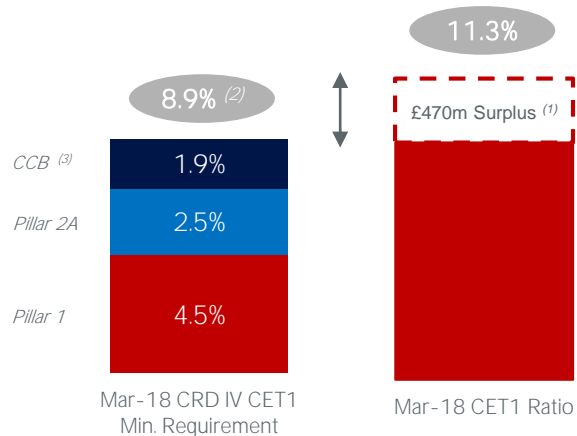
UNDERLYING CAPITAL GENERATION ABSORBED BY CONDUCT AND RESTRUCTURING

CET1 ratio evolution
(bps)



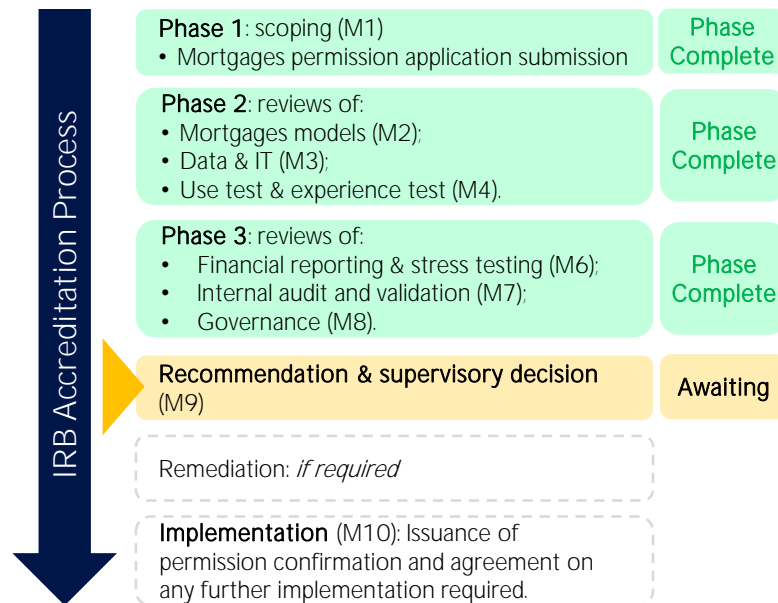
STRONG CAPITAL POSITION AND IRB ON TRACK

Significant buffer to transitional CRD IV minimum requirement today...



Mar-18 Total RWAs (£bn)	19.9
UK Leverage ratio ⁽⁴⁾	7.0%

...and nearing completion of the modular PRA IRB application process for mortgages



FY18 AND MEDIUM TERM GUIDANCE

Metric	FY18 guidance
NIM	c.220bps
Underlying costs	< £640m <i>*improved*</i>
Loan growth	Mid-single digit %
LDR ⁽¹⁾	<120%

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

Medium term guidance on track

CYBG

GAIN THE POUNDS



Inspired



Summary & outlook

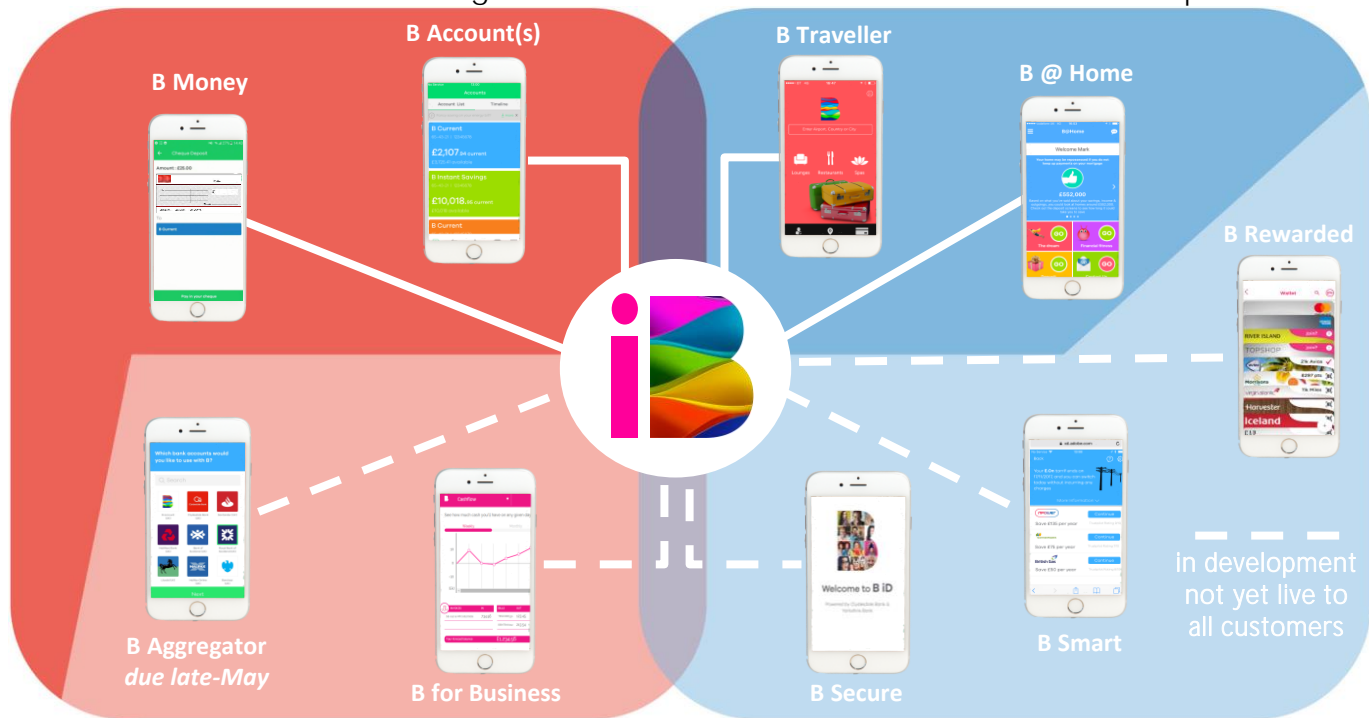


David Duffy
Chief Executive Officer

LEVERAGING THE iB PLATFORM TO DELIVER AN ENHANCED DIGITAL EXPERIENCE

Core CYBG offerings

Customer-focused marketplace



A DIFFERENTIATED REGIONAL SME PROPOSITION...

Established SME franchise with regional scale...

c.3.5%	market share of BCAs (national)
c.15%	market share of BCAs (regional) <i>in Scotland and Yorkshire</i>
c.200k	customers – half have been with CYBG >10 yrs
>300	relationship managers – avg. tenure of 14 yrs
c.£9bn	of deposits – at a cost of c.25bps
£7.4bn	of lending – average yield of 388bps
c.100bps	OOI yield (as % of lending)

...and qualities others cannot easily replicate

Deep, long-term relationships

- Trusted, regional SME brands with heritage
- 170 years of experience

Market-leading customer offering

- Comprehensive product suite supported by RM-led servicing model
- c.95% of borrowing customers use CB/YB as primary BCA product

Proven SME expertise

- Deep sector specialism through focused teams for key industries
- Proven risk management expertise

On track to deliver our three-year £6bn lending commitment to SMEs by 2019

...WHICH CAN BE SCALED NATIONALLY BY LEVERAGING THE RBS ALTERNATIVE REMEDIES PACKAGE

RBS alternative remedies package

Incentivised Switching Scheme

- Facilitates switching of 120,000 BCAs (c.3% of market share)
- 220,000 eligible business customers
- £350m scheme
 - £275m in dowers available to incentivise switching
 - £75m to cover customers' switching costs
- Participating challenger banks compete for eligible customers

Capability and Innovation Fund (£425m available)

- CYBG to bid for Pool A awards: £120m, £100m, or £60m
 - Pool A bidders are required to have "an existing and substantive business current account offering"

CYBG has the strengths SMEs care about

Full-service SME offering & strong brand recognition



- 170 years' of experience
- Comprehensive product suite
- Appetite and commitment to lend £6bn to UK SMEs over 3 years

Can switch BCAs seamlessly today



- End-to-end digital application
- Dedicated on-boarding operation
- Significant SME switching experience

Next generation experience for SME customers



- Developing our SME digital proposition using our market-leading iB platform
- iB platform capability facilitates 3rd party software integration

Opportunity for CYBG to acquire SME customers and leverage strength of the iB platform for SMEs

WELL POSITIONED TO CONTINUE EXECUTING OUR STRATEGY AND TO LEVERAGE FUTURE OPPORTUNITIES

Well positioned for a challenging operating environment...

- ✓ Prudent pre-funding strategy with diversity of sources
 - Retail, SME and wholesale funding capabilities; low TFS usage
- ✓ Established customer lending platforms
 - Mortgage franchise with national reach
 - Full-service regional SME proposition is a differentiator
- ✓ Strong capital position with significant buffer to regulatory capital requirements
- ✓ Scalable, market-leading technology platform already built

...with some exciting opportunities ahead

- Continued delivery of existing strategy
- IRB accreditation will provide capital optimisation options and open up attractive new lending segments
- Leveraging the RBS alternative remedies package to help scale our regional SME franchise nationally
- Open Banking provides the opportunity to leverage our technology platform
- Continue to assess inorganic opportunities

CYBG well positioned to deliver next phase of strategy

ANY QUESTIONS ?

Q & A



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Appendix

BALANCE SHEET

£m	March 2018	September 2017
Mortgages	24,139	23,480
SME - Core Book	6,982	6,821
SME – Non-Core Book	437	504
Unsecured personal lending	1,191	1,162
Total Customer Loans	32,749	31,967
Liquid Assets and other	7,502	9,013
Other Assets	2,102	2,251
Total Assets	42,353	43,231
Customer Deposits	28,413	27,679
Wholesale Funding (excl. TFS)	4,880	6,702
TFS	2,250	1,900
Notes in Circulation	2,304	2,197
Other Liabilities	1,236	1,351
Total Liabilities	39,083	39,829
Equity and Reserves	3,270	3,402
Liabilities and Equity	42,353	43,231

RISK WEIGHTED ASSETS

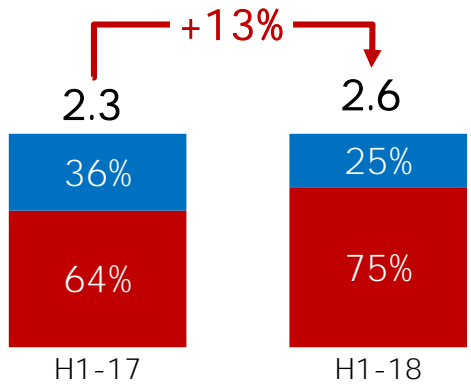
£m	March 2018	September 2017
Retail mortgages	8,881	8,646
Business lending	7,523	7,359
Other retail lending	958	932
Other lending	701	815
Total credit risk	18,063	17,752
Credit valuation adjustment	144	167
Operational risk	1,621	1,621
Counterparty risk	121	138
Total RWAs	19,949	19,678
Total Loans	32,749	31,967
Credit RWAs / total loans	55%	56%
Total RWAs / Assets	47%	46%

NEW BUSINESS FLOWS

Strong growth ahead of market

Mortgage origination

£bn



Front
book LTV

Front
book LTI

69%

71%

2.78

2.98

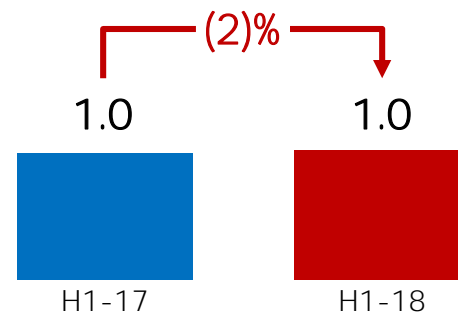
■ Owner occupied

■ BTL

Continued strong origination

SME drawdowns

£bn

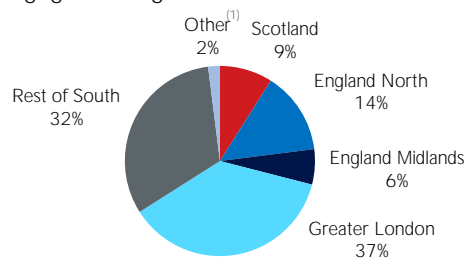


- Origination pace maintained: £1.1bn approvals (H1-17: £1.1bn)

MORTGAGE PORTFOLIO – H1 2018

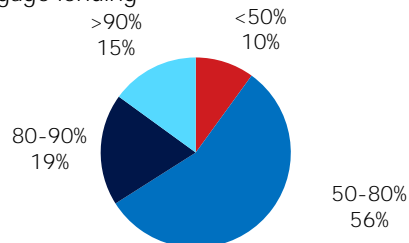
Mortgage lending location

Gross new mortgage lending



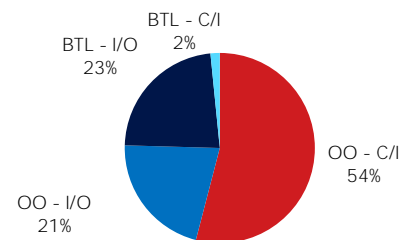
LTV of gross new mortgage lending

Gross new mortgage lending



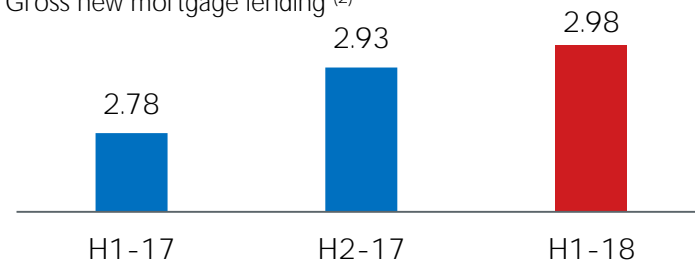
Repayment and borrower profile

Gross new mortgage lending



Loan-to-income breakdown

Gross new mortgage lending ⁽²⁾

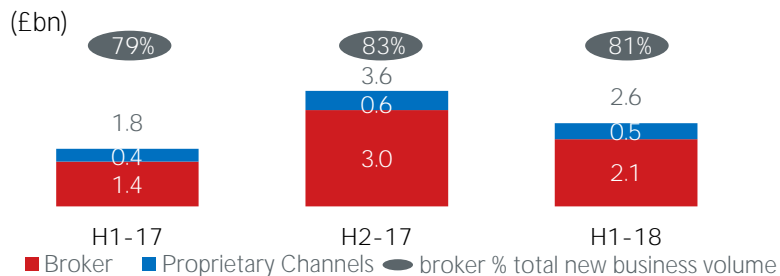


Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements

(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

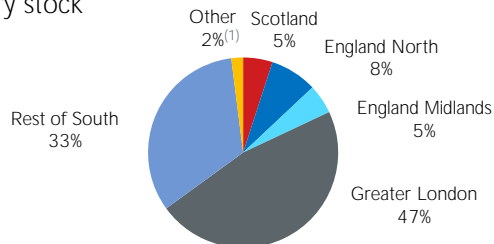
BROKER ORIGINATION – H1 2018

Gross new mortgage lending volumes



Geographic split

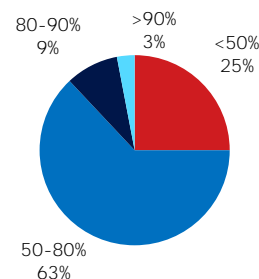
Intermediary stock



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

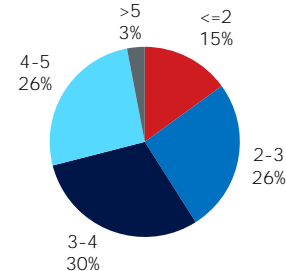
Indexed LTV band (value)

Intermediary stock



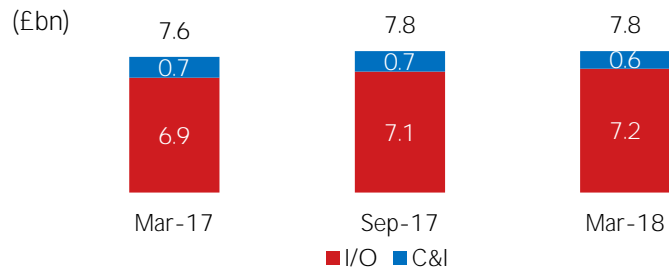
LTI split

Intermediary stock



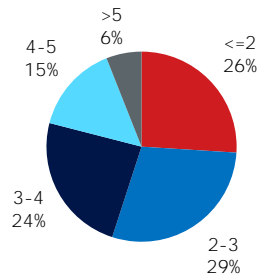
BTL LOAN BOOK – H1 2018

BTL stock



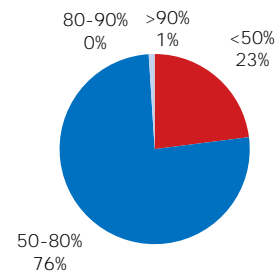
LTI split

Total BTL



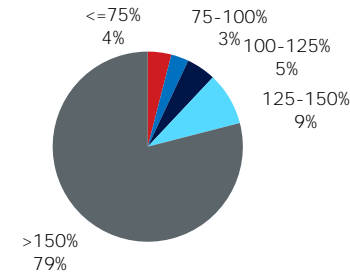
Indexed LTV

Total BTL



Rent cover

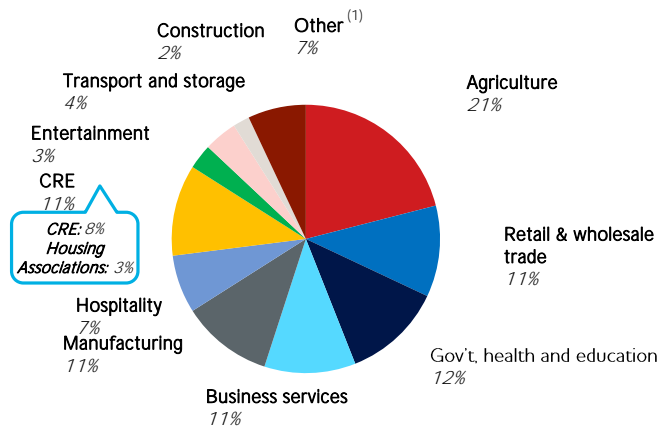
New lending



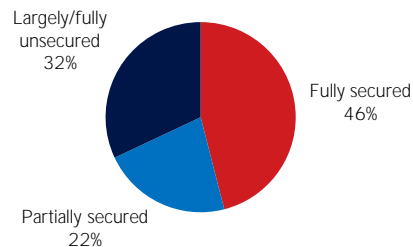
Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirement

SME LOAN BOOK – H1 2018

SME book

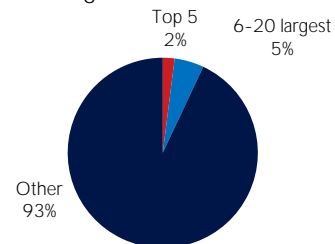


Business lending portfolio by collateral cover



Business banking clients

% of total business lending



(1) Other includes utilities, post and telecommunications, resources and finance sectors

STRONG TOTAL CAPITAL POSITION

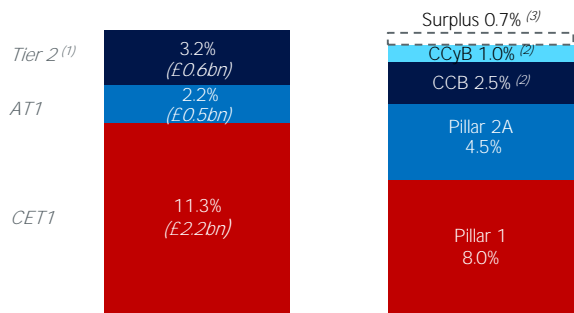
Strong total capital position...

UK Leverage
ratio ⁽⁴⁾

7.0%

Total Capital

16.7%



Mar-18 capital stack

Allocated Capital

Mar-18 Total RWAs (£bn)	19.9
Mar-18 Credit RWAs (£bn)	18.1
Credit RWAs / Loans (%)	55%
Total RWAs / Assets (%)	47%

...well positioned to meet MREL

- As an institution subject to bail-in, the Group expects to have to meet the following MREL requirements:
 - From 1 January 2020, 18% of RWAs
 - From 1 January 2022, up to two times the sum of Pillar 1 and Pillar 2A, plus CRDIV buffers
- Inaugural Holding Company senior unsecured transaction (June 2017) marked an important first step in our journey towards meeting MREL
- Further gradual issuance of Holding Company senior unsecured debt planned over the next 4 years

(1) Includes £0.16bn Collective Provisions (2) Fully Loaded Capital Conservation Buffer and expected 'standard risk environment' Countercyclical Buffer (3) Includes PRA/P2B buffer and management buffer (4) Excluding central bank claims

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

CYBG PLC — Credit Rating Summary (14th May 2018)

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

Clydesdale Bank PLC — Credit Rating Summary (14th May 2018)

Agency	Long-Term	Outlook	Short-term
S&P	BBB+	Stable	A-2
Fitch	BBB+	Stable	F2
Moody's	Baa1 ⁽¹⁾	Positive	P-2

(1) Long-term bank deposit rating— upgraded by Moody's on 7th December 2017 from Baa2 to Baa1

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