



CYBG

# CYBG PLC

INTERIM FINANCIAL RESULTS

16 May 2017



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# Welcome

- Strategic Progress
- Financial Results
- iB Platform
- Outlook and Summary
- Q & A



**Jim Pettigrew**  
Chairman

CYBG

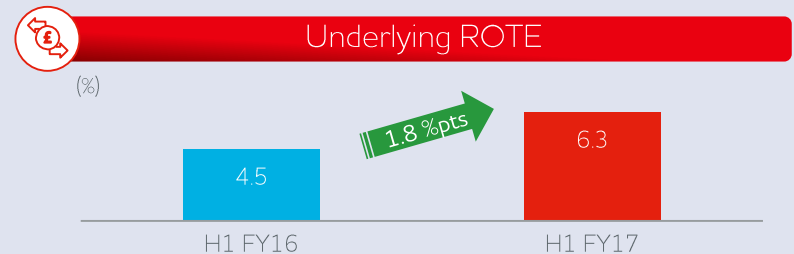
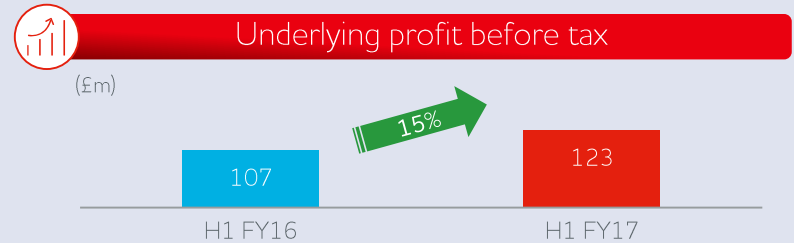
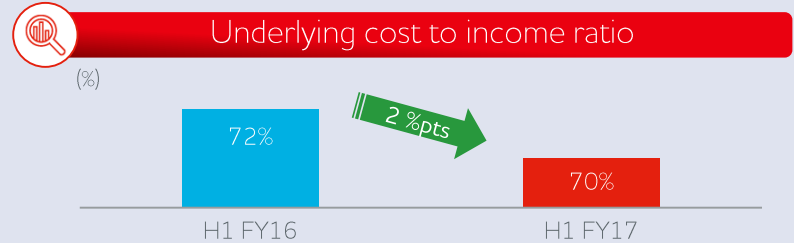
# Strategic Progress



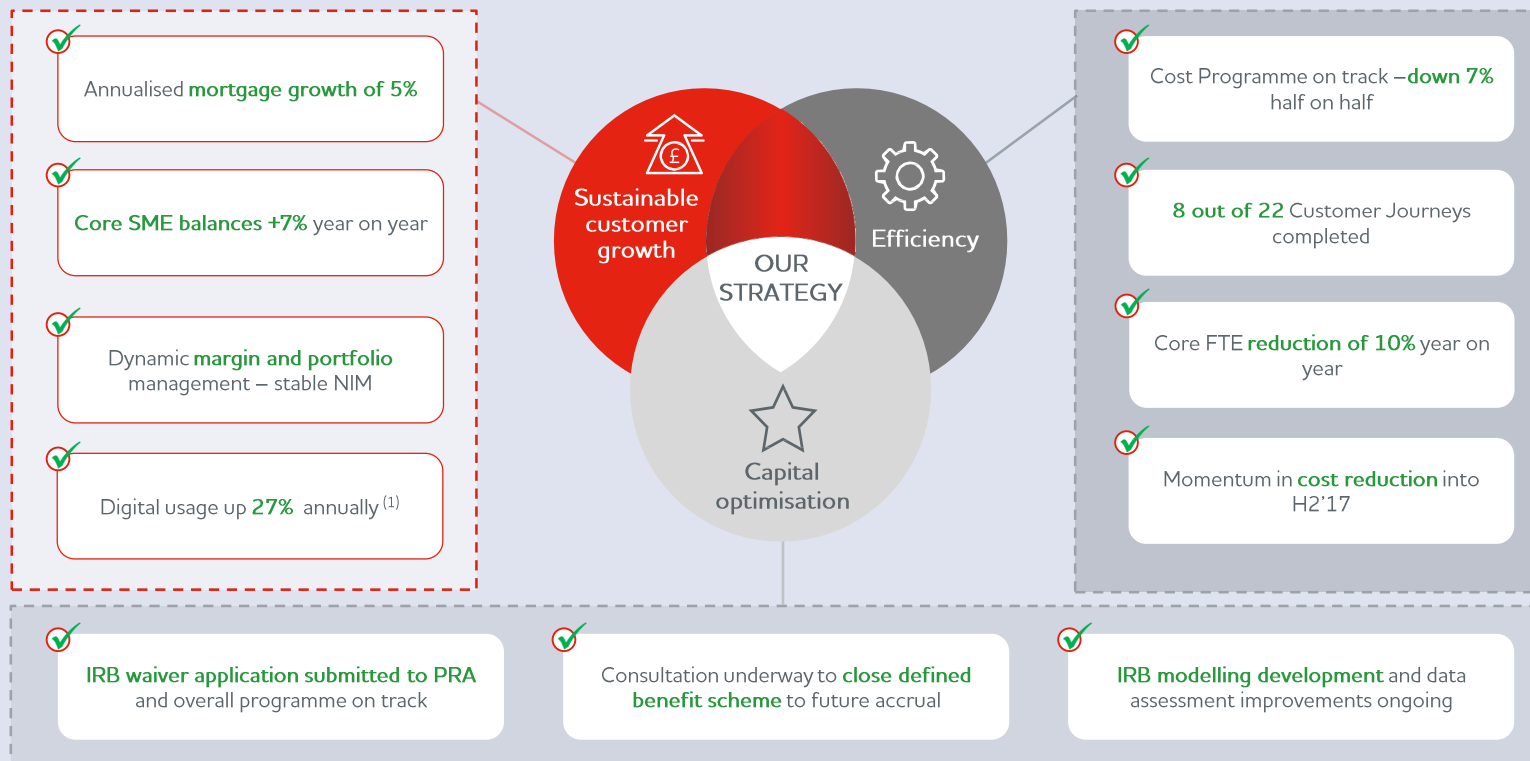
**David Duffy**  
Chief Executive Officer

## MOMENTUM IN BUSINESS PERFORMANCE

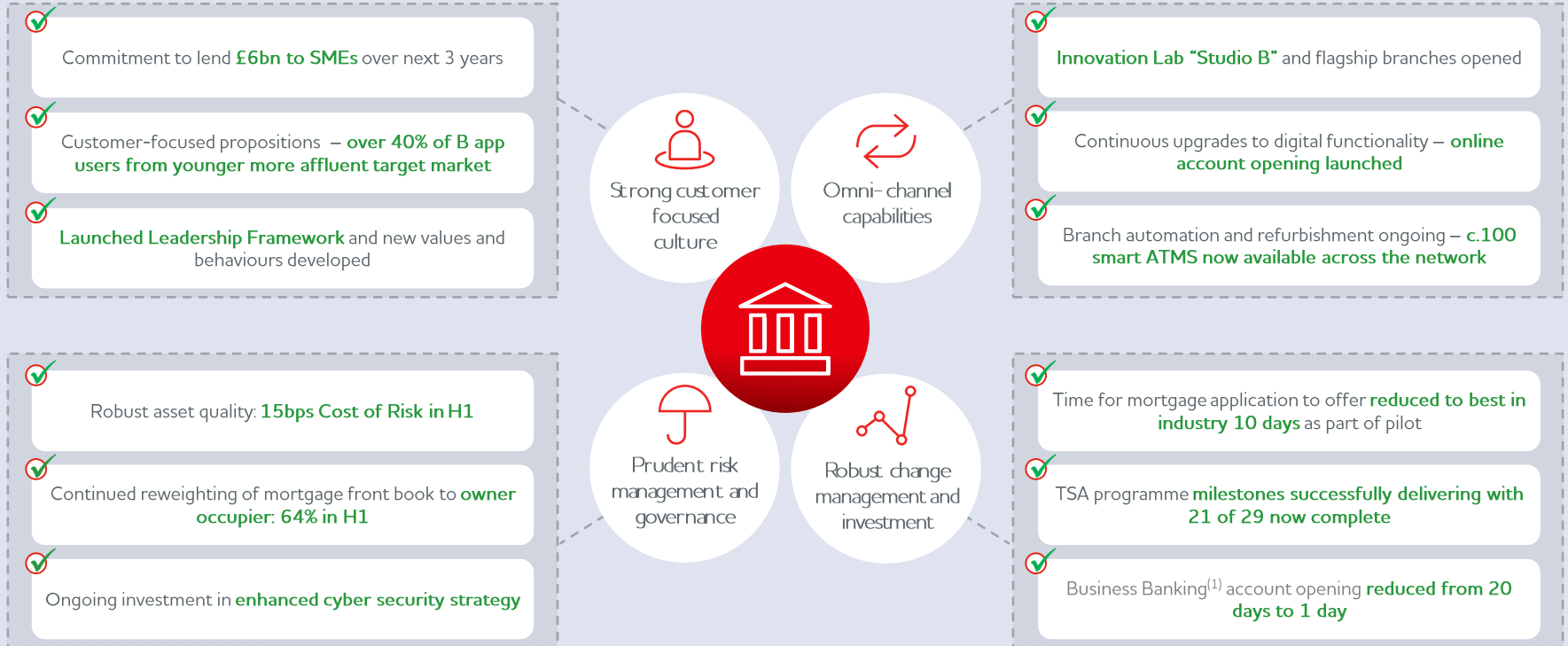
- ✓ Delivering sustainable income growth while actively managing margin
- ✓ Cost reduction programme gaining momentum
  - Restructuring costs in line with expectations
- ✓ Positive 'jaws' with both income growth and cost reduction
- ✓ Delivering improved shareholder returns



## CONTINUED DELIVERY OF OUR STRATEGIC OBJECTIVES...

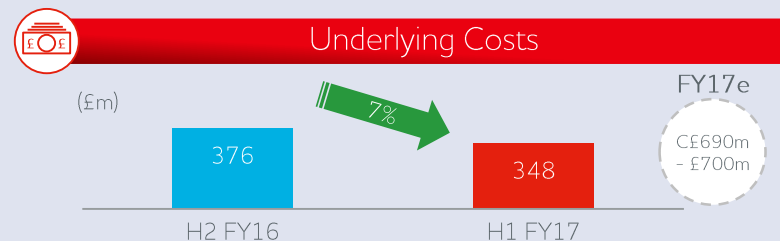
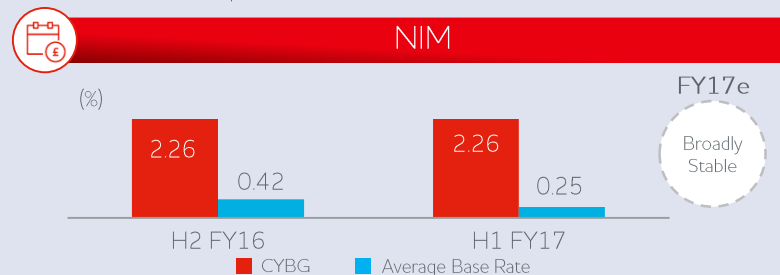
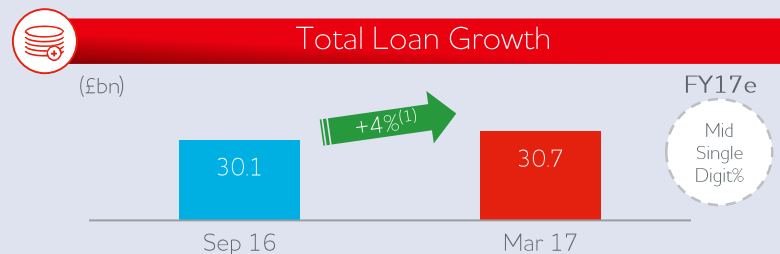


# ...AND BUILDING OUR FRANCHISE CAPABILITIES



# ON TRACK TO DELIVER FY17 TARGETS

- ✓ Delivering sustainable growth with momentum into H2 2017
- ✓ Stable NIM profile despite low rate environment and competitive pressures
- ✓ Confidence and momentum building in cost reduction programme
- ✓ 117% LDR remains within guidance, including TFS
- ✓ CET1 of 12.5% – robust and in line with guidance
- ✓ Economic conditions consistent with planning assumptions





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# Financial Results



**Ian Smith**  
Chief Financial Officer



## IMPROVED OPERATING PERFORMANCE

Income statement	6 months to		Change
£m	31 March 2017	31 March 2016	HY17 vs. HY16
Net interest income	411	400	3%
Non-interest income	86	91	(5)%
<b>Total operating income</b>	<b>497</b>	<b>491</b>	<b>1%</b>
Total operating and administrative expenses	(348)	(353)	(1)%
<b>Operating profit before impairment losses</b>	<b>149</b>	<b>138</b>	<b>7%</b>
Impairment losses on credit exposures <sup>(1)</sup>	(26)	(31)	(14)%
<b>Underlying profit on ordinary activities before tax</b>	<b>123</b>	<b>107</b>	<b>15%</b>
NIM <sup>(2)</sup>	226 bps	225 bps	1 bps
Cost of risk	15 bps	19 bps	(4) bps
Underlying RoTE	6.3%	4.5%	+1.8 %pts
Underlying EPS (pence)	9.0	7.2	25%

(1) Relate solely to loans and advances to customers and exclude the credit risk adjustments on loans at fair value through profit or loss which are incorporated in the movement in other assets and liabilities at fair value within non-interest income.

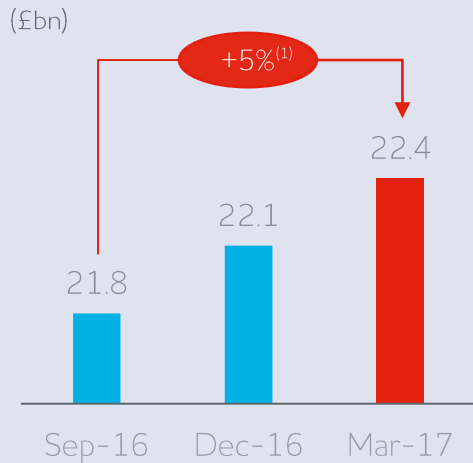
(2) NIM is defined as net interest income divided by average interest earning assets for a given period (excluding short term repos used for liquidity management purposes, amounts received under the conduct indemnity and not yet utilised, and any associated income).

## STATUTORY EARNINGS

Statutory profit	Six months to	
	31 March 2017	31 March 2016
£m		
Underlying profit on ordinary activities before tax	123	107
Exceptional Items		
- Conduct	(19)	(46)
- Restructuring	(53)	-
- Other	(5)	(3)
Statutory profit on ordinary activities before tax	46	58
Tax charge	(16)	(22)
Statutory profit for the period	30	36

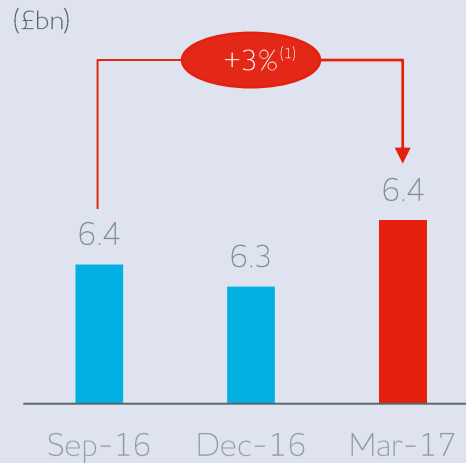
## ASSET GROWTH IN LINE WITH GUIDANCE

## Mortgages



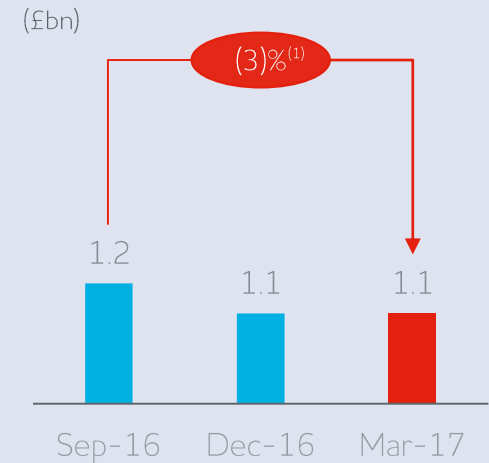
Sustainable growth ahead of the market

## Core SME



Strong new business volumes, net lending growth offset by Q1 redemptions

## Unsecured personal lending

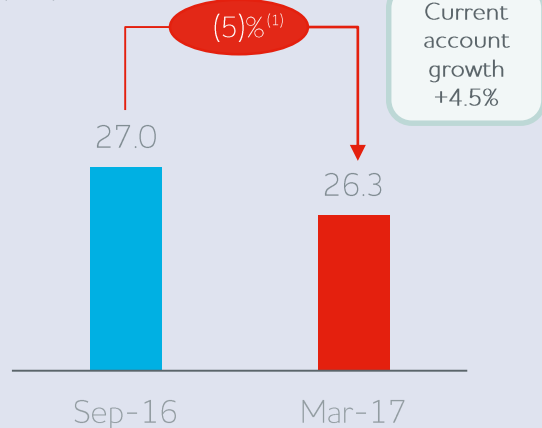


Disciplined origination in competitive rate environment

# ACTIVE MANAGEMENT OF FUNDING BASE

## Deposits

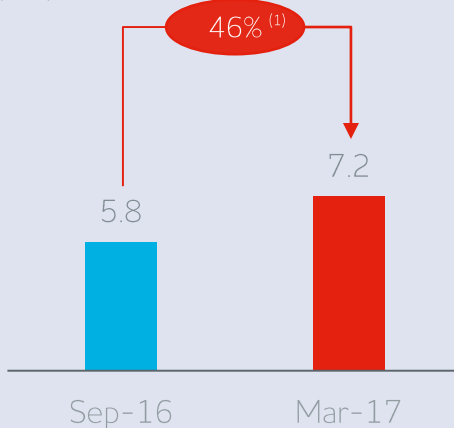
(£bn)



Dynamic management of margin and mix of deposit base

## Wholesale funding

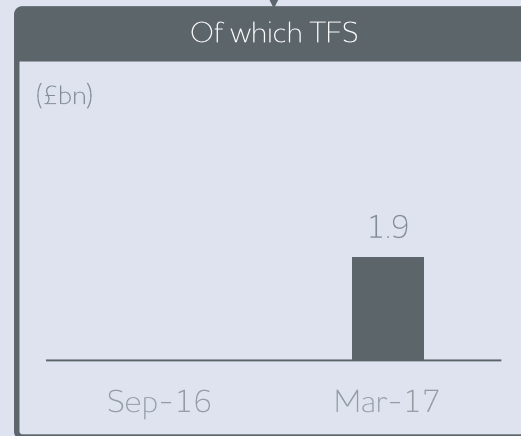
(£bn)



Secured longer term-dated funding

## Of which TFS

(£bn)

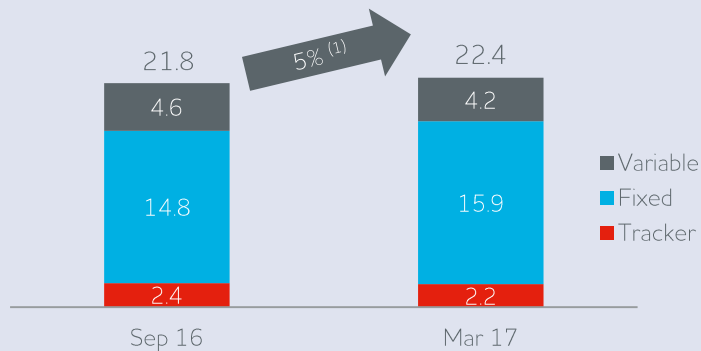


Supplementary funding strategically deployed

# MORTGAGES – SUSTAINABLE GROWTH ABOVE MARKET

## Mortgage balances

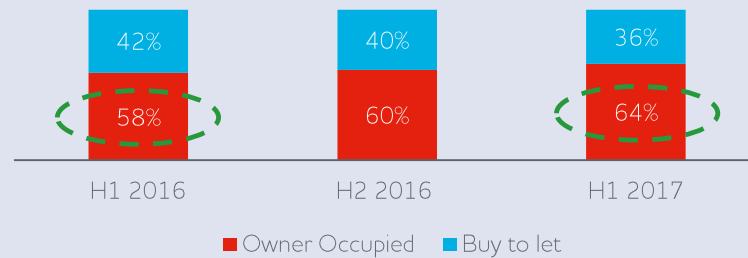
(£bn)



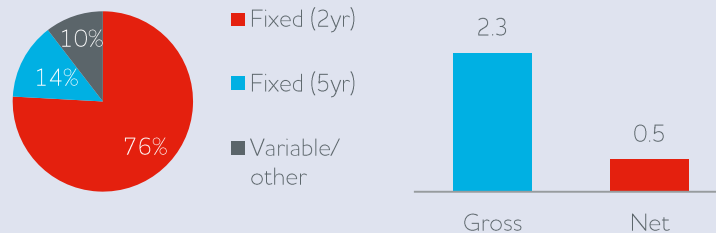
Front book (bps)	H1 2017	H2 2016	Diff.
Yield	257	274	(17)
Swap rate <sup>(2)</sup>	53	48	+5

(1) Annualised basis  
 (2) Weighted average 2 yr, 5 yr  
 (3) Flow in period

## Lending by recipient <sup>(3)</sup>

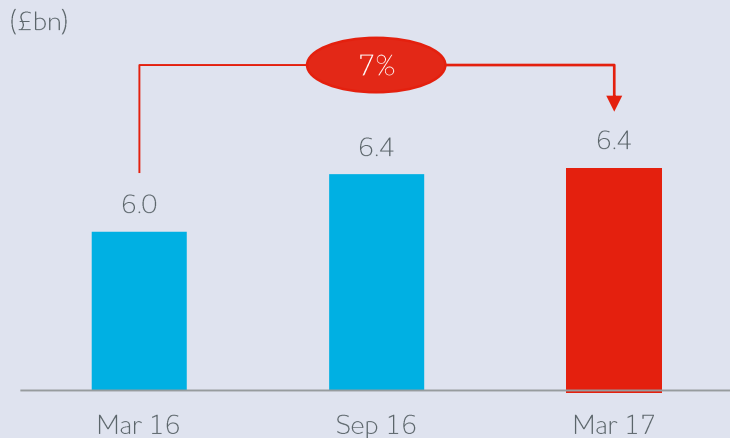


## H1 2017 flow (£bn)



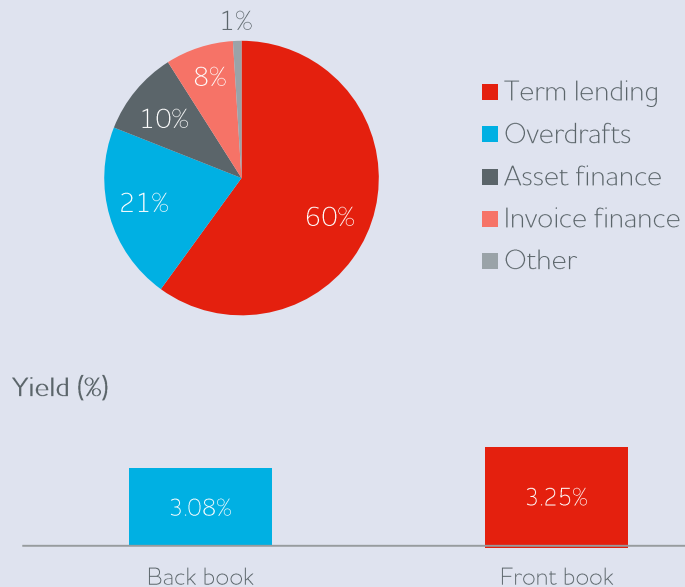
## SME – UNDERLYING MOMENTUM ALIGNED TO SECTOR STRATEGY

### Core SME balance growth



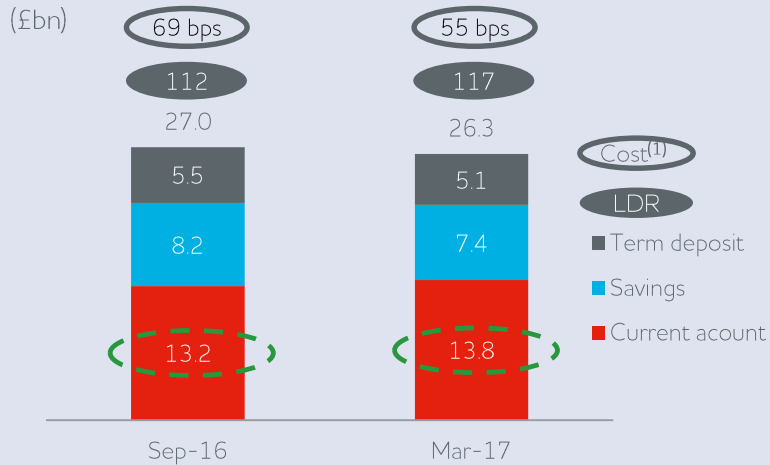
- March 2016 inflexion point in growth
- Strong level of new business drawdowns (+5% half on half)
- Q1 2017 impacted by c.£120m of exceptional redemptions

### H1 2017 – £1.1bn gross new loans & facilities



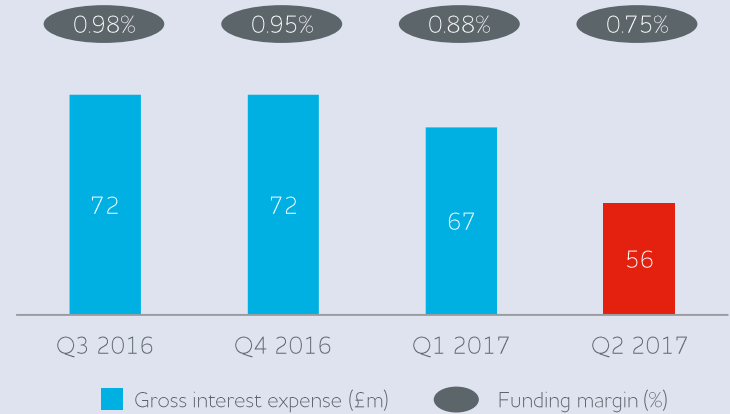
# ACTIVE PORTFOLIO MANAGEMENT REDUCING FUNDING COSTS

## Sustainable management of deposit base



- Current account growth of 4.5% offset by:
  - Active run-off of higher rate back book, £0.4bn reduction in TD
  - £0.8bn outflows following repricing of ISAs
  - Non-core corporate balances of £0.7bn exited

## Active management reducing funding costs



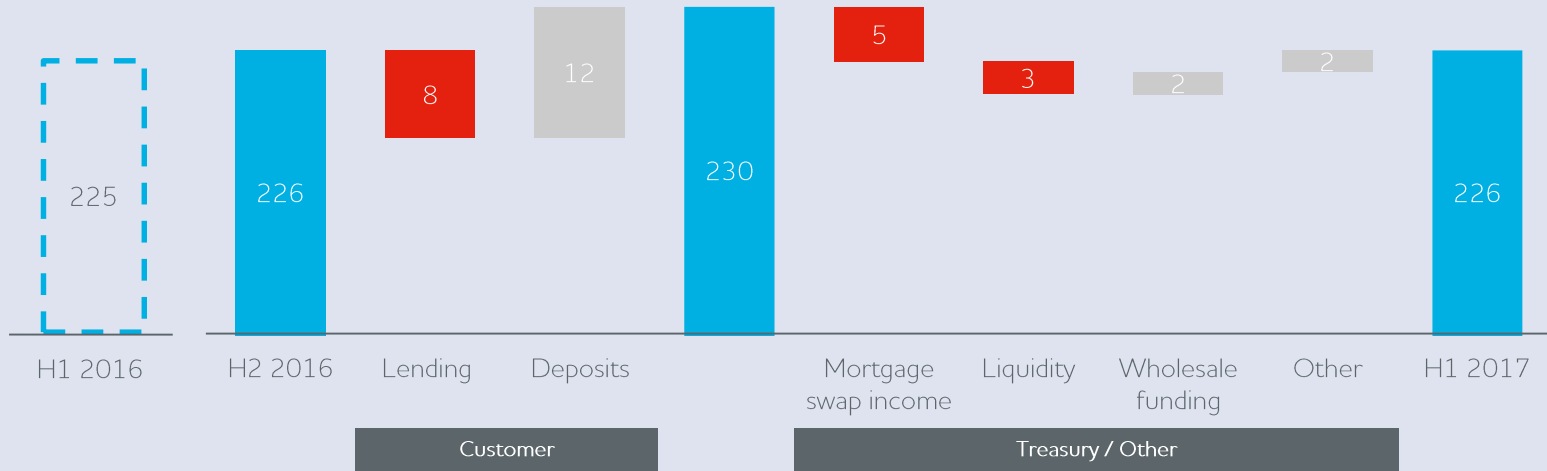
- Mix improvement alongside repricing benefits from changes made in December 2016
- Reduction in higher cost savings and term deposits, replaced by current account balance growth and TFS



# STABLE NET INTEREST MARGIN

Customer margins broadly stable with lending margin pressure offset by deposit actions

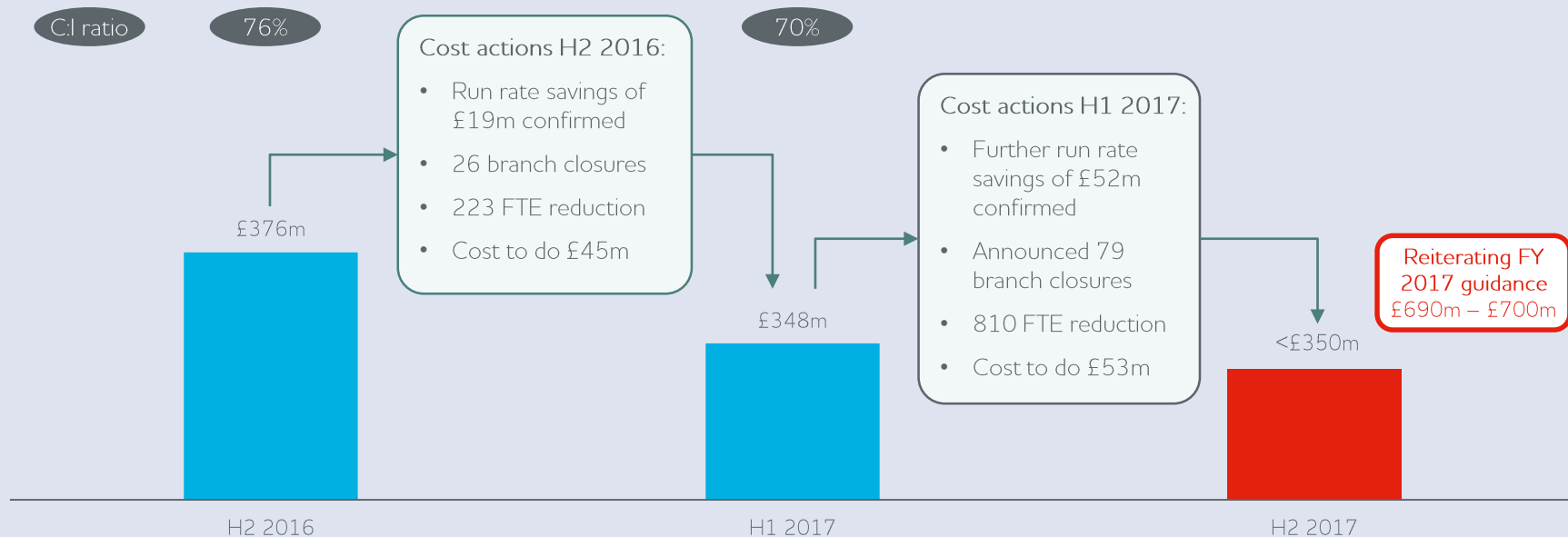
(bps)





## SIMPLIFYING THE BUSINESS – DELIVERING ON COSTS

'Sustain' programme driving momentum in underlying cost delivery



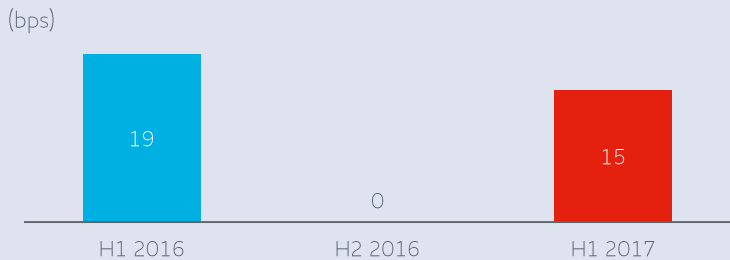
## SIMPLIFYING THE BUSINESS – DELIVERING ON COSTS



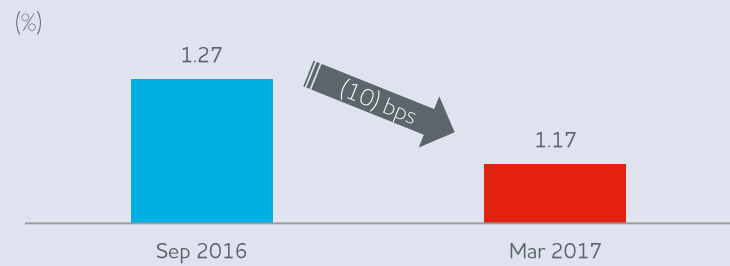
Proportion of savings reinvested in digital and growth agenda

# IMPROVED ASSET QUALITY

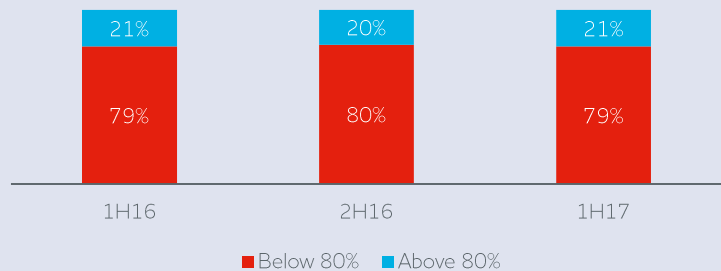
## Cost of risk



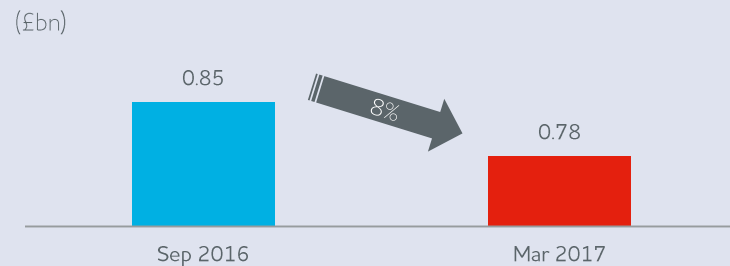
## 90 DPD plus impaired assets to customer loans



## Mortgage front book LTVs



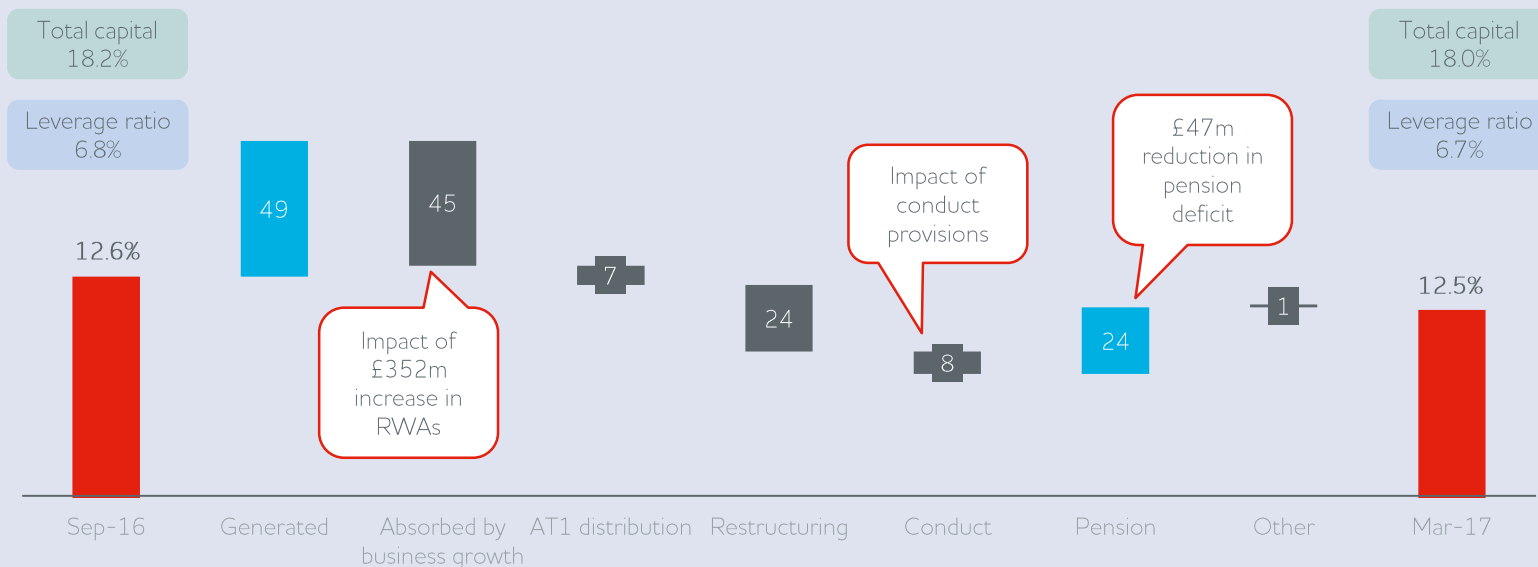
## SME categorised loan balances



# CAPITAL GENERATION SUPPORTING GROWTH AND RESTRUCTURING

## CET1 ratio evolution

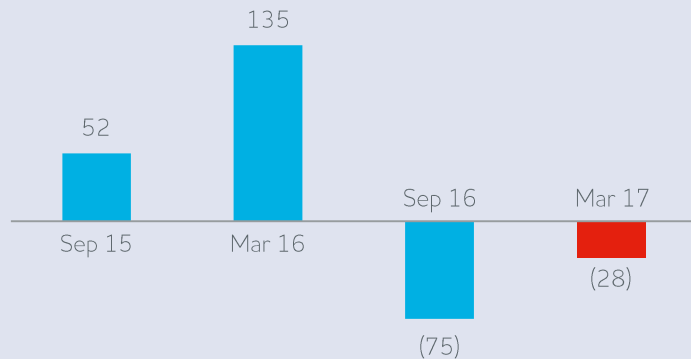
(bps)



## ACTIVE CAPITAL MANAGEMENT

## IAS 19 pension accounting basis

(£m)



- Consultation ongoing with staff on closure of defined benefit scheme to accrual of future benefits
- September 2016 triennial valuation underway

## Regulatory update

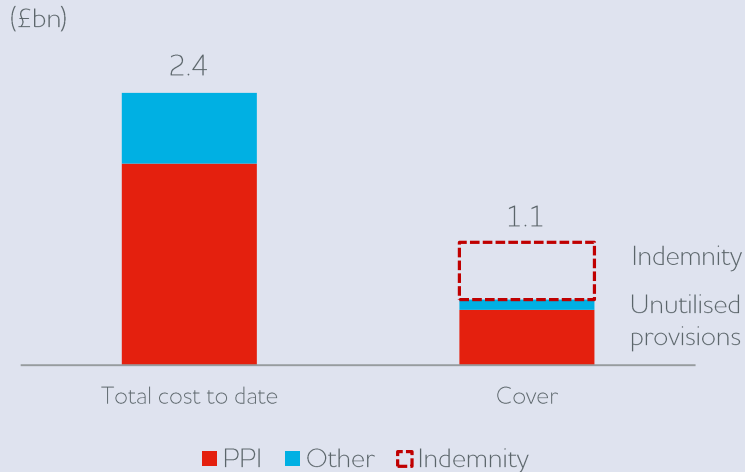
- IRB programme on track
- Submitted IRB waiver application in April
- Expected IRB transition timelines unchanged:



- PRA consultations welcomed:
  - Pillar 2A (CP3/17)
  - IRB (CP5/17)

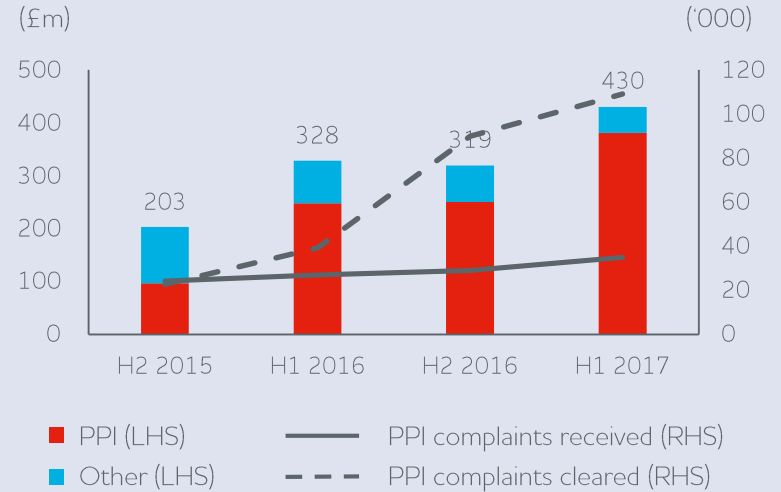
# PROGRESS ON LEGACY CONDUCT

## Financial cover for legacy conduct exposures (31 March 2017)



- Provisions increased by £190m, principally PPI
- Total remaining cover £1.1bn for legacy conduct exposure

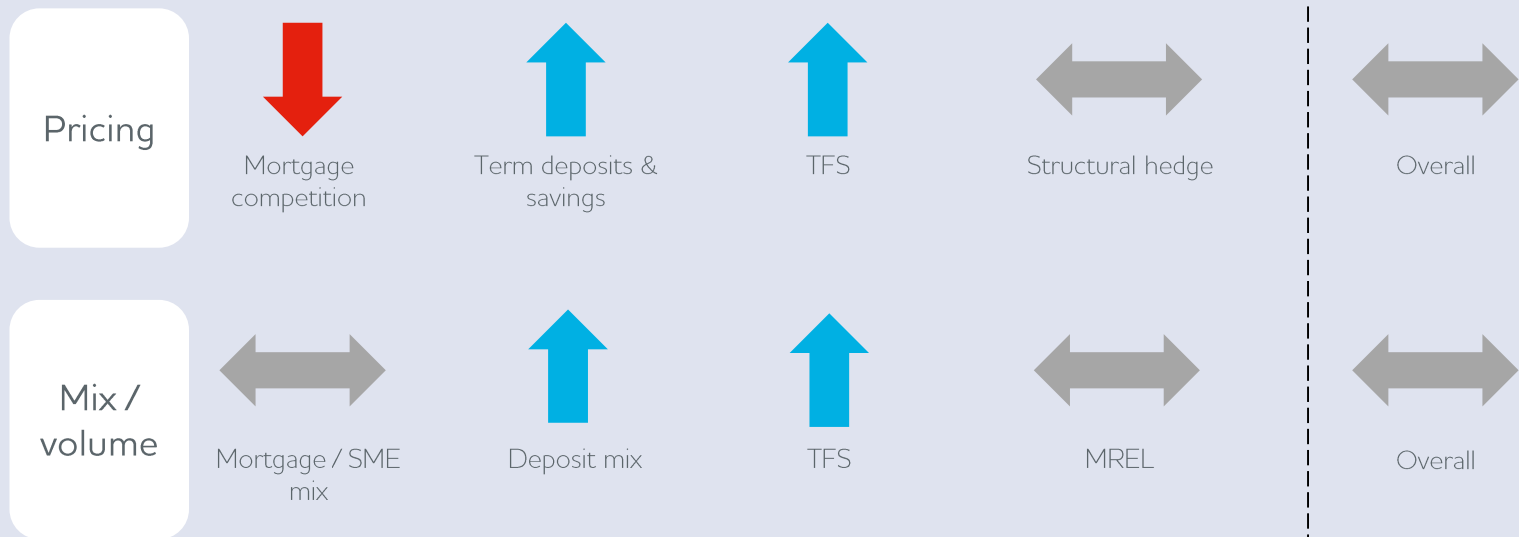
## Provision utilisation



- Significant resources deployed to drive accelerated clearance of PPI claims
- PBR / Remediation “back book” exercises well progressed

# NIM – HEADWINDS AND TAILWINDS

H2 2017 vs. H1 2017



FY 2017 NIM expected to be broadly stable versus FY 2016

## FULL YEAR OUTLOOK UNCHANGED

Metric	H1 FY17	FY 2017
NIM	2.26%	Broadly stable vs. FY16
Underlying costs	£348m	c. £690m - £700m
Loan growth	4% <sup>(1)</sup>	Mid single digit %
LDR	117%	< 120% <sup>(2)</sup>
CET1	12.5%	12% - 13%

Dividend ambition remains unchanged: targeting a modest inaugural dividend with respect to FY 2017



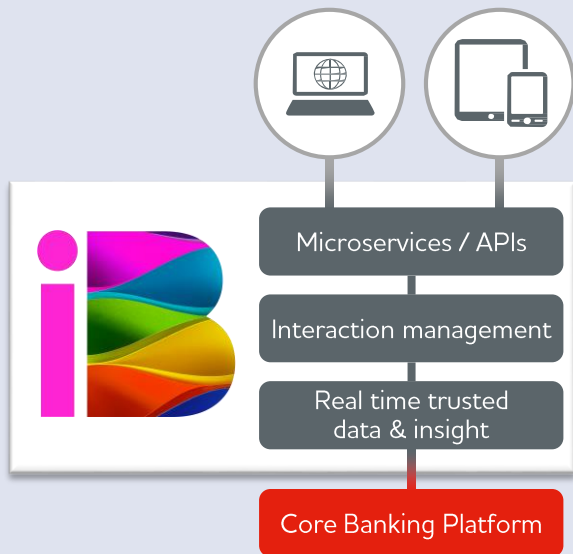
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# iB Platform



**Debbie Crosbie**  
Chief Operating Officer

## LEVERAGING OUR MARKET LEADING BANKING PLATFORM...



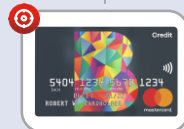
iB platform positions CYBG for future banking landscape

- Open API architecture
- Focus on Big Data and valuable customer insights
- Cross bank service & product capability



B app successfully launched and building momentum

- Digital launch of the year – FsTech awards 2017
- Driving new to bank customers and deposits



Continuous product and service capability improvements

- Migrate CB + YB customers onto iB platform – H2 2017
- New 'B' credit card in Q3
- "B for Business" by end CY17
- Android Pay for Mastercard payments by end FY17
- New packaged accounts online, in branch and through contact centre by end CY17

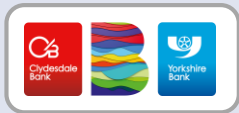
# ...AND POSITIONING THE BANK FOR FUTURE GROWTH

## Studio B opened



- ✓ **Insight** – enables design collaboration with our customers for products and propositions
- ✓ **Showcase** – provides interaction and feedback on digital concepts
- ✓ **Customer Banking Centre** – supports range of services and trial area for new ideas

## Building enriched and simultaneous functionality



- One consistent platform – multiple brands



## Collaborating with FinTech...

**ezbob**

- ✓ Developing market leading e-lending solution for small business customers
- ✓ On-going discussions with FinTech companies

## ...working with existing technology...



- ✓ Prototyping voice activated capability

## ...and positioned for open banking environment



- ✓ Planning for future regulatory and consumer market dynamics



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# Outlook and Summary



**David Duffy**  
Chief Executive Officer

## FOCUSED ON MEDIUM TERM TARGETS

## Overall summary

- 1 Strong start to FY17
- 2 On track to achieve our FY17 targets
- 3 Building strong momentum to deliver medium term guidance
- 4 Driving omni-channel capability and positioning business for future growth
- 5 Mindful of uncertain political and economic environment



Metric	H1 FY17	Medium term guidance
CIR <sup>(1)</sup>	70%	55% - 58% by FY2019e
Retail lending	5% <sup>(2)</sup>	Mid single digit % CAGR to FY2019e
SME lending	4% <sup>(3)</sup>	Mid single digit % CAGR to FY2019e
CET1	12.5%	12-13%
LDR <sup>(4)</sup>	117%	< 120%
Dividend	n/a	Targeting a modest inaugural dividend for 2017, in time 50% pay-out of earnings <sup>(5)</sup>
RoTE <sup>(1)</sup>	6.3%	Double digit by FY2019e

Inorganic opportunities considered where aligned to existing strategy and shareholder value



### Digital Bank of the Year

CFI Awards  
(March 2017)



### Digital Launch of Year (B)

FS Tech Awards  
(March 2017)



### Bank of the Year - Highly Commended

North West Insider Awards 2016  
(October 2016)



### Best Mortgage Lender Scotland

(Clydesdale Bank), YourMortgage Awards  
(November 2016)



### Bank of the Year (Yorkshire Bank)

Yorkshire Dealmakers' Awards  
(November 2016)



### Best Regional Mortgage Lender

(Yorkshire Bank), YourMortgage Awards  
(November 2016)



### Best New Challenger

The Market Gravity Corporate Entrepreneur Awards  
(October 2016)



### Best High Net Worth Lender

Mortgageforce Awards 2016  
(November 2016)



### Funder of the Year

LaingBuisson Healthcare Awards  
(November 2016)



### Best current account with overdraft (B)

FairBanking Foundation  
(February 2017)



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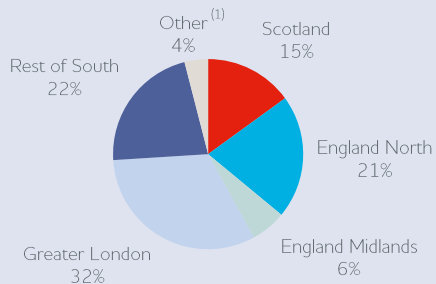


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## Appendix

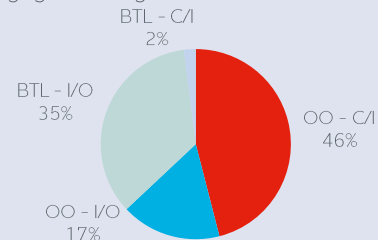
# MORTGAGE PORTFOLIO – H1 2017

## Mortgage lending stock



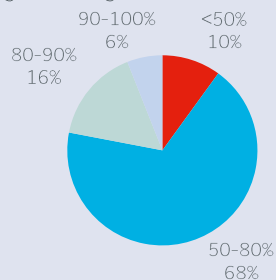
## Repayment and borrower profile

### Gross new mortgage lending



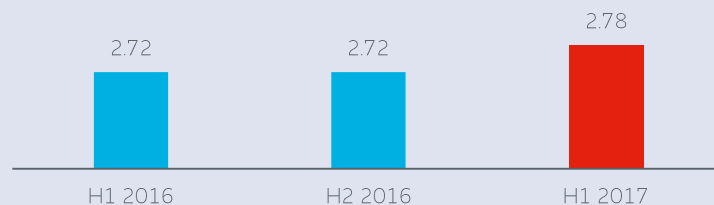
## LTV of gross new mortgage lending

### Gross new mortgage lending



## Loan-to-income breakdown

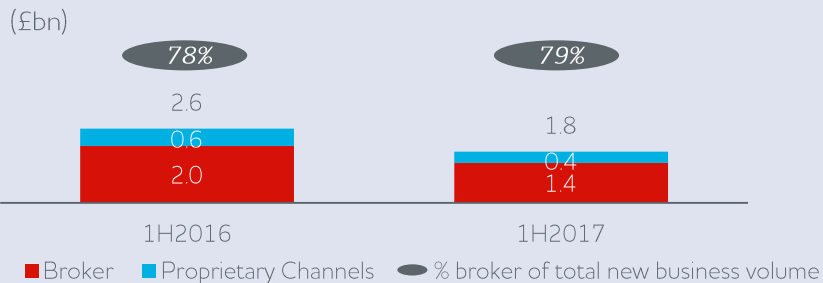
### Gross new mortgage lending



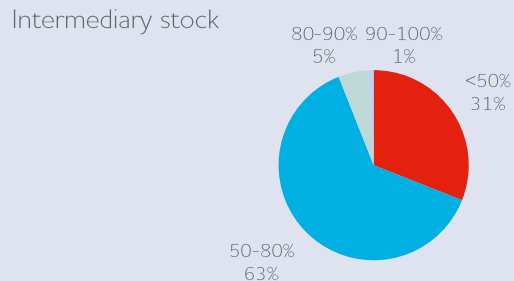
Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements  
 (1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

# BROKER ORIGINATION – H1 2017

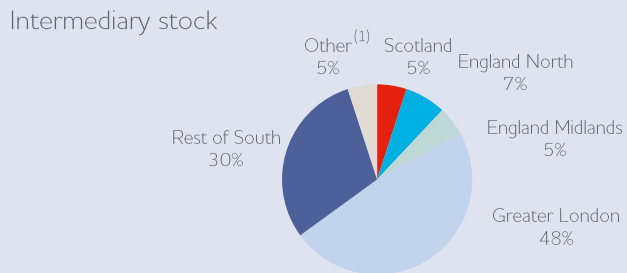
## Gross new mortgage lending volumes



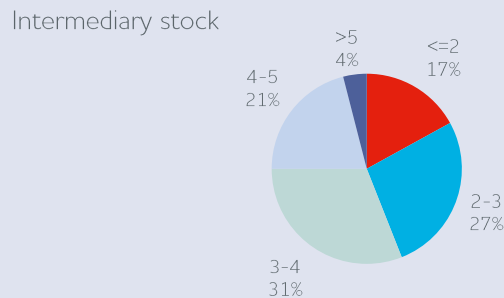
## Indexed LTV band (value)



## Geographic split



## LTV split

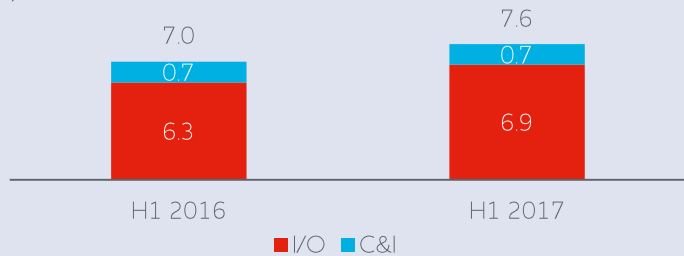


Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements  
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# BTL LOAN BOOK – H1 2017

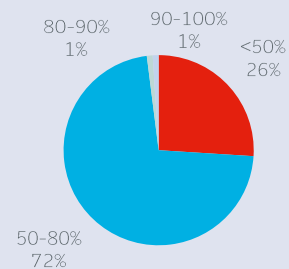
## BTL stock

(£bn)



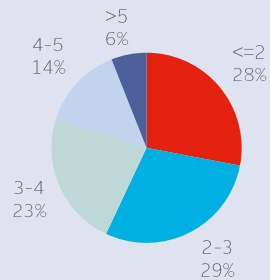
## Indexed LTV

Total BTL



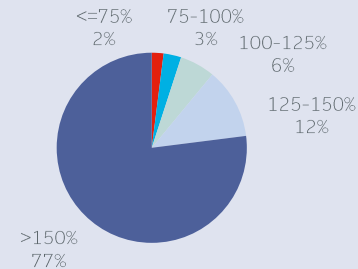
## LTI split

Total BTL



## Rent cover

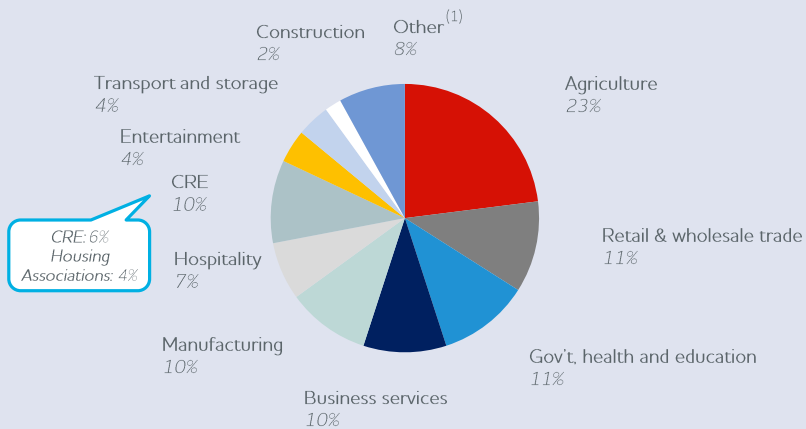
New lending



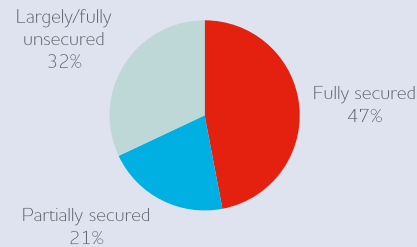
Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements  
 (1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred

# SME LOAN BOOK – H1 2017

## SME book

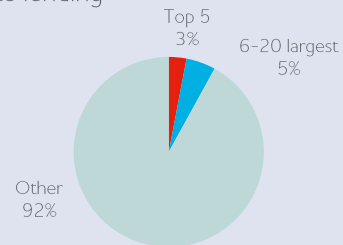


## Business lending portfolio by collateral cover



## Business banking clients

% of total business lending



## STRUCTURAL HEDGE BENEFIT

(£m)	H1 2016		H2 2016		H1 2017	
	Average balance	Notional income	Average balance	Notional income	Average balance	Notional income
NIBs and other	10,822	36	11,262	38	11,574	41
Equity	3,403	6	3,401	6	3,444	7
Total	14,225	42	14,663	44	15,018	48

## FTE BREAKDOWN

	March 17	September 16	March 16
Core FTE	6,041	6,313	6,723
Legacy conduct FTE	585	533	545
Total FTE	6,625	6,846	7,268

## BALANCE SHEET

£m	March 2017	September 2016
Mortgages	22,376	21,836
SME - Core Book	6,439	6,357
SME - Non-Core Book	740	800
Unsecured personal lending	1,135	1,153
<b>Total Customer Loans</b>	<b>30,690</b>	<b>30,146</b>
Liquid Assets and other	8,623	8,638
Other Assets	915	1,145
<b>Total Assets</b>	<b>40,228</b>	<b>39,929</b>
Customer Deposits	26,333	27,000
Wholesale Funding (excl. TFS)	5,260	5,810
TFS	1,900	-
Notes in Circulation	2,043	1,912
Other Liabilities	1,443	1,996
<b>Total Liabilities</b>	<b>36,979</b>	<b>36,718</b>
Equity and Reserves	3,249	3,211
<b>Liabilities and Equity</b>	<b>40,228</b>	<b>39,929</b>





## R W A S

£m	March 2017	September 2016
Retail mortgages	8,249	7,998
Business lending	7,396	7,087
Other retail lending	907	915
Other lending	856	906
<b>Total credit risk</b>	<b>17,408</b>	<b>16,906</b>
Credit valuation adjustment	195	286
Operational risk	1,623	1,623
Counterparty risk	155	214
<b>Total RWAs</b>	<b>19,381</b>	<b>19,029</b>
<b>Total Loans</b>	<b>30,690</b>	<b>30,147</b>
<b>Credit RWAs / total loans</b>	<b>57%</b>	<b>56%</b>
<b>Total RWAs / Assets</b>	<b>48%</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 with all 3 rating agencies

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

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

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

Agency	Long-Term	Outlook	Short-term
S&P	BBB+	Negative	A-2
Fitch	BBB+	Stable	F2
Moody's	Baa2	Stable	P-2