



CYBG

CYBG PLC

2016

ANNUAL FINANCIAL RESULTS

22 NOVEMBER 2016

CYBG PLC

# Welcome

- Progress Update
- Financial Results
- Outlook and Summary
- Q & A



**Jim Pettigrew**  
Chairman





CYBG

# Progress Update



**David Duffy**  
Chief Executive Officer

## FY 2016: EXECUTION AND DELIVERY

## Strong momentum in underlying performance

- Core SME business repositioned and growing strongly
- Mortgage growth ahead of market
- Continued resilience in deposit franchise

## Financial targets met and exceeded

- NIM, Capital and Cost of Risk remain robust
- Cost reduction programme delivering on target
- Loan growth in line with revised targets

## Improvements in customer experience

- Digital platform significantly enhanced
- B successfully launched
- Branch automation and investments on track

## Income Statement

NIM of 226bps  
NII 2.4% higher

£729m underlying costs  
4% better than initial IPO guidance

9bps cost of risk  
12bps lower

Underlying PBT up 39%  
£221m before tax

## Balance Sheet

6.2% underlying growth  
in deposits  
Across retail and SME

4.7% loan growth  
Revised channel and  
segmentation approach

CET1 of 12.6%  
Robust and in line with  
guidance

Underlying ROTE 5.2%  
On track for 2019 target

# PROGRESS ON KEY STRATEGIC PRIORITIES ...

## Relentless focus on delivery

- Momentum in customer franchise
- Structural cost reductions being delivered
- IRB programme progressing to plan
- Tracking to the better and faster targets announced on Capital Markets Day in September

## Sustainable customer growth

✓  
6.5% Mortgage growth  
6.1% Core SME growth

✓  
B launched: +47% NPS

✓  
34% increase in mobile usage

✓  
Stable margin in a challenging market

✓  
Overall cost of funds:  
100bps

## Efficiency

✓  
Core FTE down 8%

✓  
Branch rationalisation programme on track

✓  
Simplification of 22 Customer Journeys underway

✓  
Momentum in cost programme into FY17

✓  
Underlying costs 4% lower than initial guidance

## Capital optimisation

✓  
IRB program fully mobilised and on track

✓  
Established portfolio management approach

✓  
Capital ratios robust

✓  
Focused on pension volatility mitigation

✓  
Reduced regulatory capital requirements – P2A

# ... WHILE ENHANCING OUR CORE CAPABILITIES

## Focused on customers and intelligent risk

- Employees engaged and clear on the journey ahead
- Investment aligned to strategic growth and resilience
- Consistently adding to omni-channel capabilities
- Depth and talent added across all levels of the organisation



## Strong customer-focussed culture

- ✓ Employee engagement increased to **79% (+6%)**
- ✓ Employee advocacy of **70% (+10%)**
- ✓ Volume of complaints down **41%\***

## Omni-channel capabilities

- ✓ Channel and segment distribution focus
- ✓ Digital usage up **22%**
- ✓ Network optimisation and automation

## Robust change management and investment approach

- ✓ **>£350m** investment to FY18
- ✓ Enhanced change & delivery capabilities
- ✓ TSA exit on track for FY18e

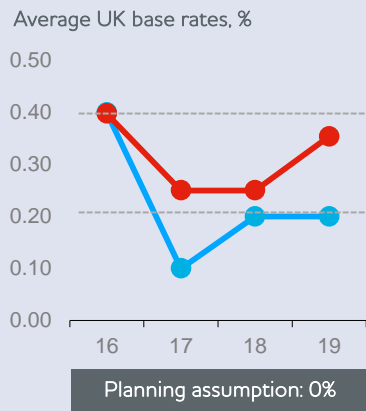
## Prudent risk management and governance

- ✓ Prudent risk appetite post Brexit
- ✓ Stand-alone risk capability embedded
- ✓ Continued streamlining of governance

# KEY PLANNING ASSUMPTIONS VALIDATED - FOCUSED ON MEDIUM TERM TARGETS

## Economic indicators broadly neutral since CMD ...

- Base rate now not expected to drop below 0.25%
- Slightly stronger GDP growth in 2016 and 2017
- Backdrop remains uncertain with inflation a key variable



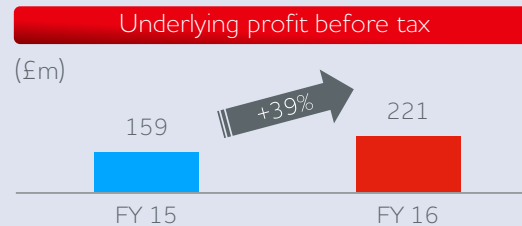
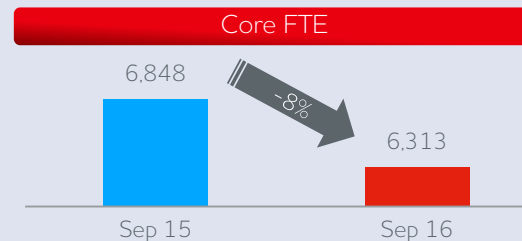
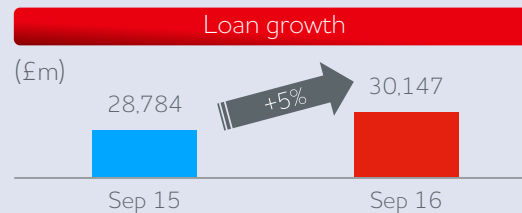
## ... allowing us to focus squarely on execution

- Key economic planning variables validated by post CMD economic performance
- Challenges and opportunities for CYBG going forward
- Comfortable with market positioning



# FY 2016 - A STRONG START FOR CYBG

- ✔ Successfully completed demerger and IPO
- ✔ Refreshed strategy and targets post EU referendum
- ✔ Clear path to double digit shareholder returns
- ✔ Launch of new digital platform
- ✔ Delivering our targets as a public company
- ✔ Leadership team and Board now complete

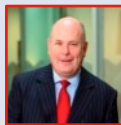




An aerial photograph of the London skyline at sunset. The sun is low on the horizon, casting a golden glow over the city. The Gherkin (30 St Mary Axe) is the central focus, with its distinctive blue-tinted glass facade. To its left is the Shard, and other skyscrapers are visible in the background. The city's dense urban landscape is visible in the foreground and middle ground.

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# Financial Results



**Ian Smith**  
Chief Financial Officer

## INCOME STATEMENT- MOMENTUM IN PERFORMANCE<sup>(1)</sup>

	Year to		Change
	30 Sep 2016	30 Sep 2015	FY16 vs FY15
	£m	£m	
Net interest income	806	787	2.4%
Non-interest income	183	177	3.4%
<b>Total operating income</b>	<b>989</b>	<b>964</b>	<b>2.6%</b>
Total operating and administrative expenses	(729)	(727)	0.2%
<b>Operating profit before impairment losses</b>	<b>260</b>	<b>237</b>	<b>9.3%</b>
Impairment losses on credit exposures <sup>(2)</sup>	(39)	(78)	(50.2)%
<b>Underlying profit on ordinary activities before tax</b>	<b>221</b>	<b>159</b>	<b>39.2%</b>
<b>NIM<sup>3</sup></b>	226 bps	223 bps	3 bps
Impairment/Average customer loans	9 bps	21 bps	12 bps
Underlying RoTE	5.2%	5.1%	0.1%
Underlying EPS (pence)	16.2	14.3	13.3%

1. Underlying basis

2. Relate solely to loans and advances to customers (refer to notes 16 and 17 in the annual financial statements) 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 (refer to notes 6 and 14 to the financial statements).

3. 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). Comparative disclosures have been amended to conform with the current period's presentation

## STATUTORY RESULT - EXCEPTIONAL ITEMS MANAGED WITHIN CAPITAL GUIDANCE

	Year to 30 Sep 2016	Year to 30 Sep 2015
	£m	£m
Underlying profit on ordinary activities before tax	221	159
Exceptional Items		
- Conduct	(51)	(486)
- Restructuring	(45)	(17)
- Other, net	(48)	59
Statutory profit / (loss) on ordinary activities before tax	77	(285)
Tax (charge) / credit	(241)	56
Statutory loss for the year	(164)	(229)

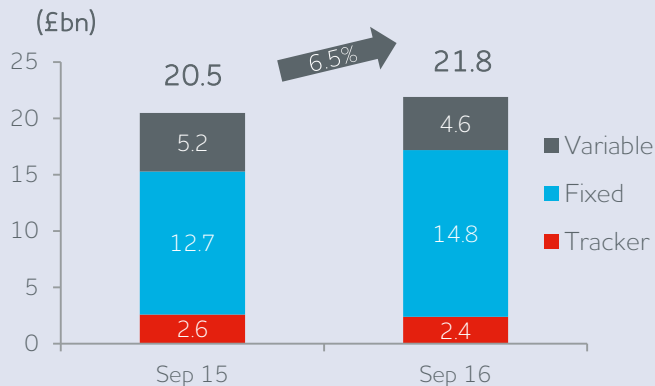


## BALANCE SHEET SNAPSHOT - RESILIENT GROWTH ON BOTH SIDES OF BALANCE SHEET

	30 Sep 2016	30 Sep 2015	Change year on year
Mortgages (£bn)	21.8	20.5	6.5%
Core SME (£bn)	6.4	6.0	6.1%
Unsecured personal lending (£bn)	1.2	1.2	flat
Deposits (£bn)	27.0	26.3	2.5%
CET1 Ratio	12.6%	13.2%	6 pts
Loan to deposit ratio	112%	109%	3 pts

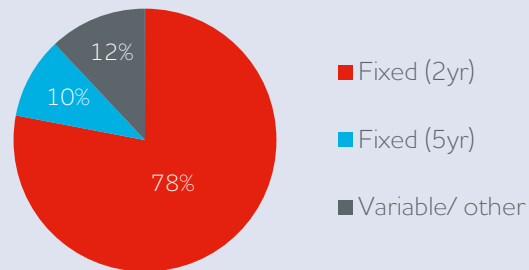
# MORTGAGES – GROWTH ABOVE MARKET, MARGIN MAINTAINED

## Mortgage Balances



	FY 2016	FY 2015	Diff.
Front book yield	277 bps	321 bps	(44) bps
Swap rate*	66 bps	104 bps	(38) bps

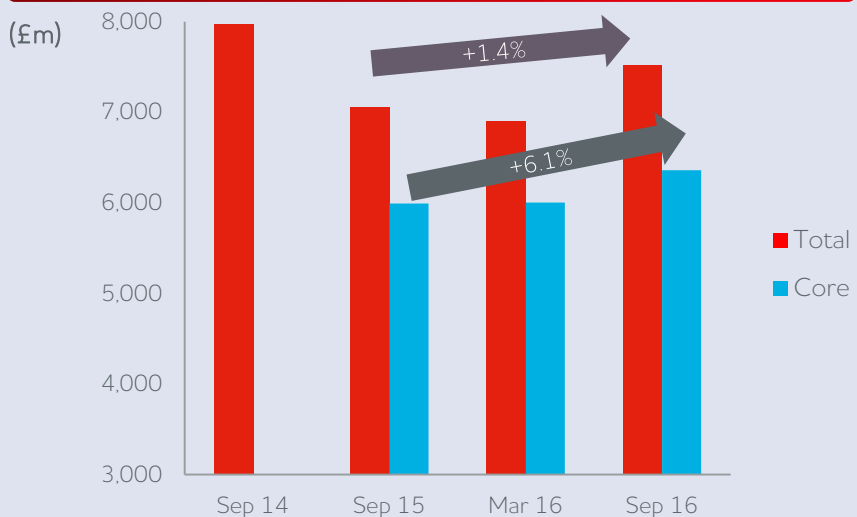
## FY16 Flow



	Lending	Owner Occupier	Buy to Let
Q1 2016		63%	37%
Q2 2016		53%	47%
Q3 2016		62%	38%
Q4 2016		58%	42%
<b>FY2016</b>		<b>59%</b>	<b>41%</b>

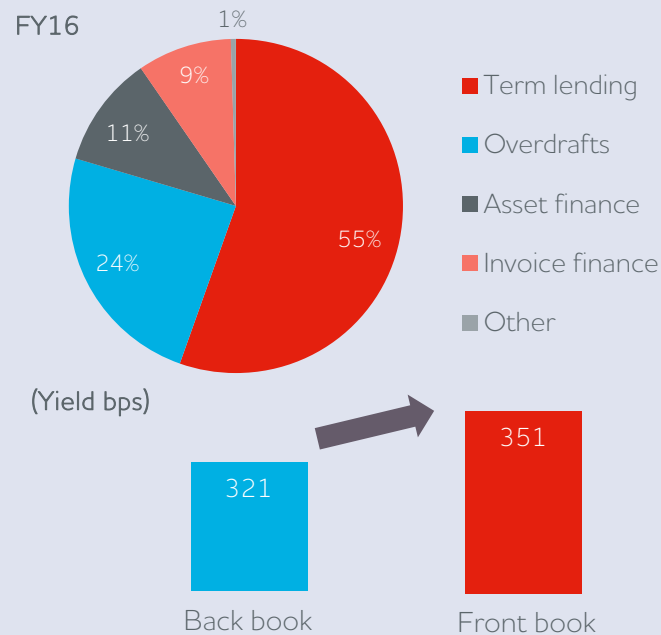
# SME – RETURN TO GROWTH STRONGER YIELD

SME balance growth



- March '16 inflexion point in growth
- Product mix, pricing discipline driving better yield
- Continued run off of non-core (£0.8bn remaining)

Gross new loans & facilities £2.2bn +15%



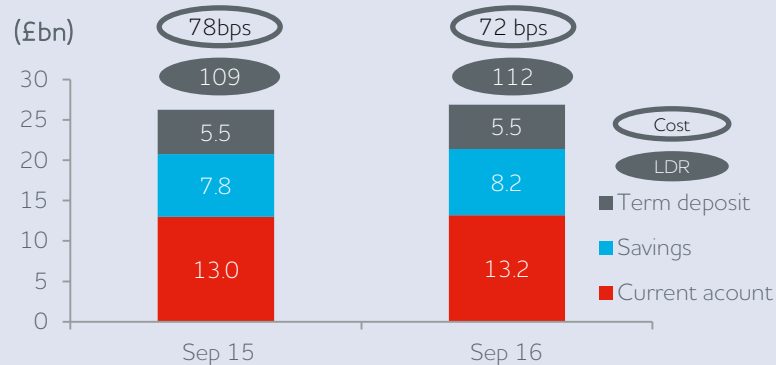


# DEPOSITS – SUSTAINABLE GROWTH AT LOWER COST

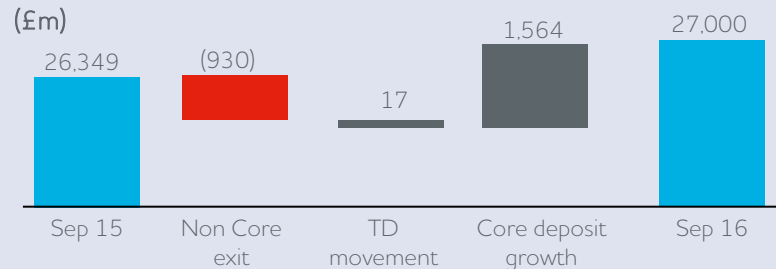
## Sustainable growth & resilient profile

- ✓ Mix improvement alongside repricing benefits from changes made in March '16
- ✓ Further repricing opportunities to support margin during FY 2017
- ✓ Portfolio management – strong underlying growth in core deposits (+6%)
- ✓ LDR target FY17 <120%, relative to current 112% - TFS

## Improving deposit profile



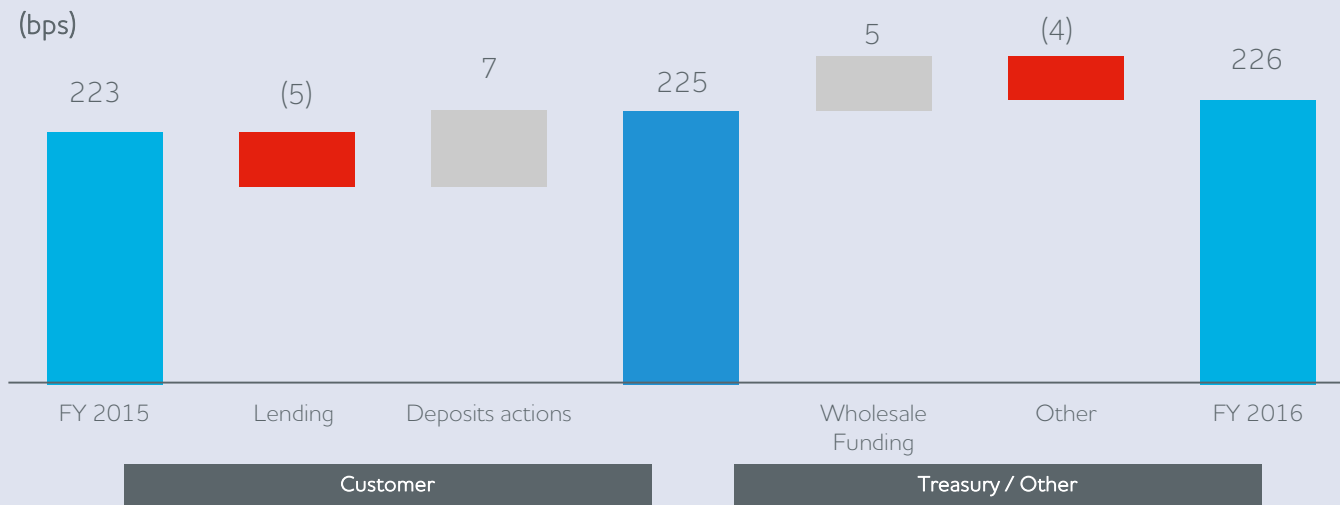
## Managed year on year growth





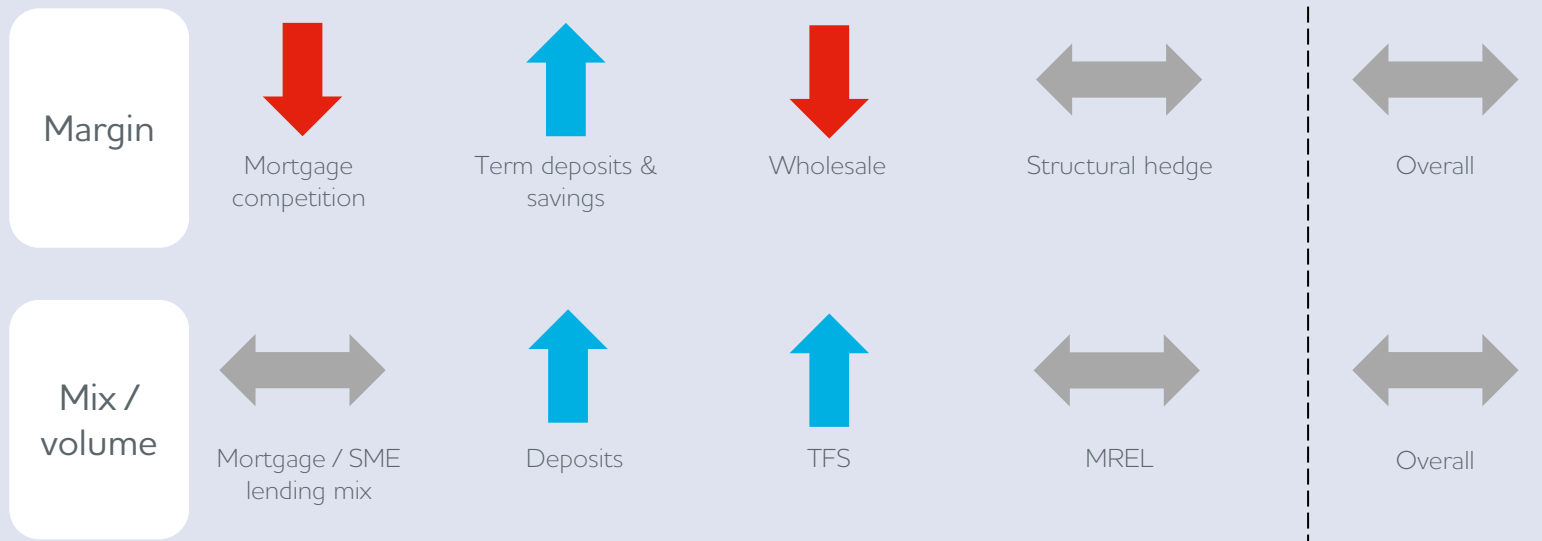
## STABLE NET INTEREST MARGIN

Customer margins broadly stable with lending margin pressure offset by deposit actions and wholesale funding costs



# NIM - HEADWINDS AND TAILWINDS

FY 17 vs FY 16



FY17 NIM expected to be broadly stable versus FY16

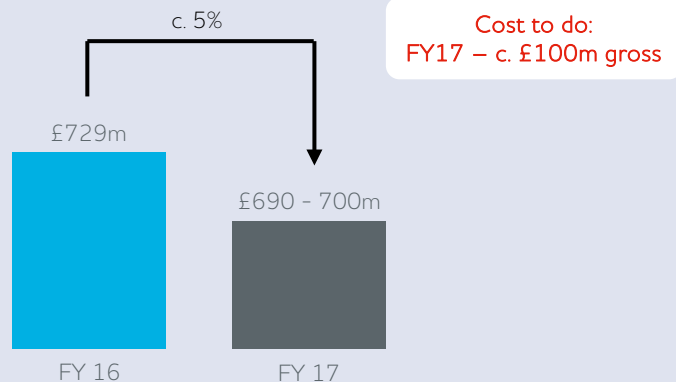
# SIMPLIFYING THE BUSINESS, DELIVERING ON COSTS

## Cost efficiency



- 4% below original cost target for FY 2016
- Network efficiency - 10% reduction in branches
- Right model - 8% reduction in core FTE to 6,313

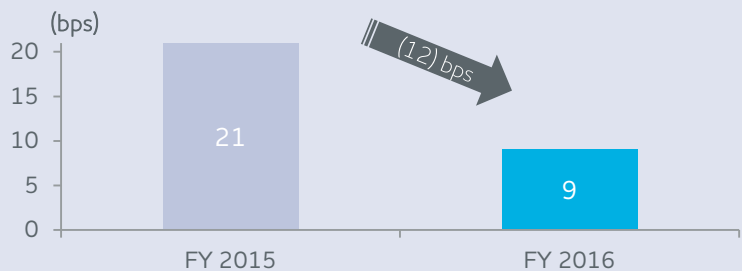
## Progress on key initiatives



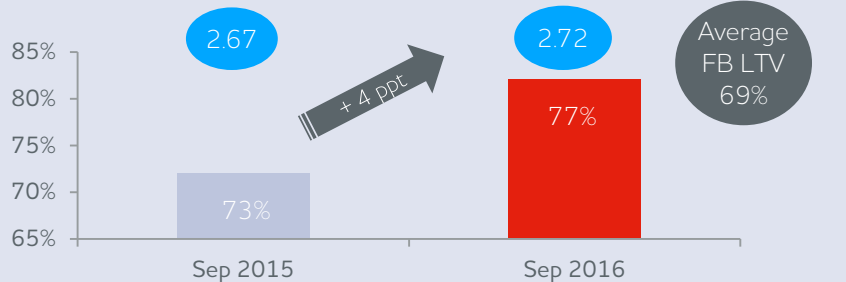
- Further c.5% reduction targeted for FY 2017
- Network efficiency - further branch closures / automation
- Central cost management
- Offset by inflation, further investment spend

# ASSET QUALITY REMAINS STRONG

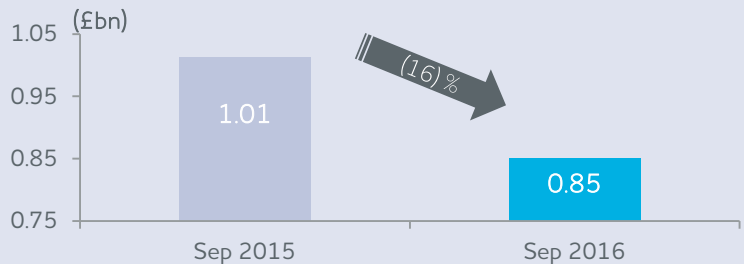
## Cost of risk



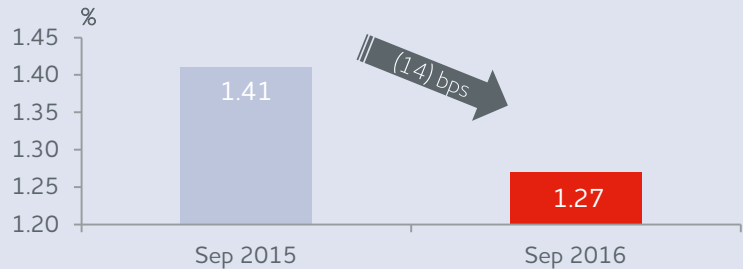
## Mortgage front book LTV's below 80%<sup>(1)</sup>



## SME categorised loan balances



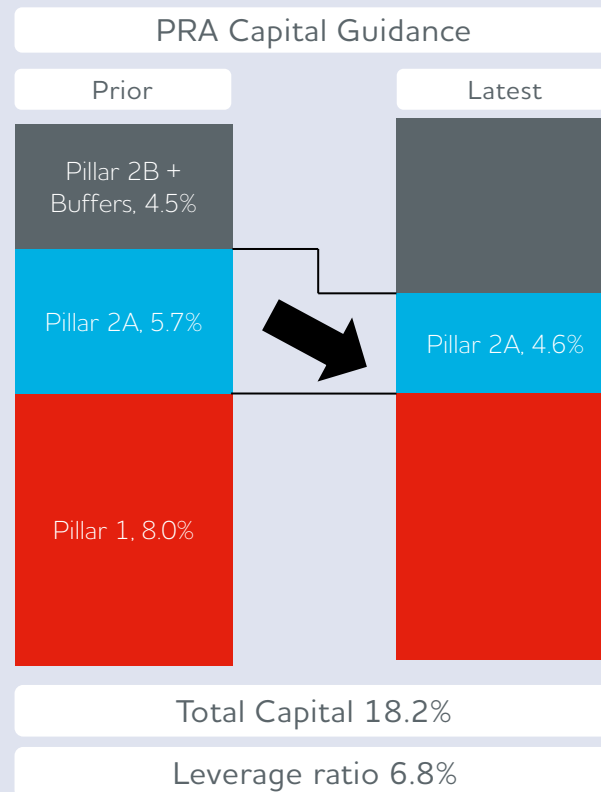
## 90 DPD plus impaired assets to customer loans





# STRONGLY CAPITALISED, SUPPORTING GROWTH

	Capital change (bps)	CET1
Opening % Sep '15		13.2%
Generated	123	
Absorbed by business growth	(75)	
AT1 distribution	(18)	
Core business net capital generated	30	
Restructuring	(21)	
Pension	(51)	
Conduct	(26)	
Other	8	
Closing % Sep '16		12.6%





# PENSIONS – VOLATILITY IN CAPITAL

## Pension Scheme – addressing Trustee Funding requirement

Scheme membership	2016	2013
Active members	2,821	3,442
Deferred members	15,415	16,641
Pensioners	7,601	6,755

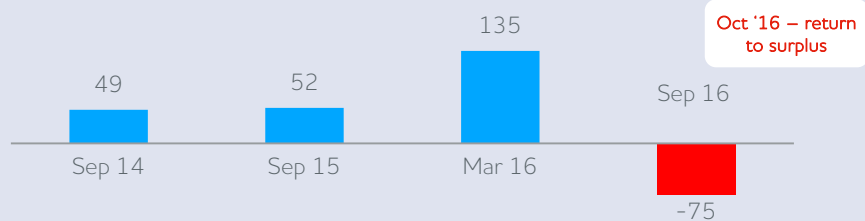
## Management actions

- Asset allocation
- Benefit reforms
- Further strategies in progress

## Funding

- Schedule of contributions previously agreed
- Remove deficit on a cash funding basis by 2022
- September '16 triennial review in progress

## IAS 19 Pension Accounting Basis



Discount rate based on AA corporate bonds. Surplus deducted from reserves or CET1.

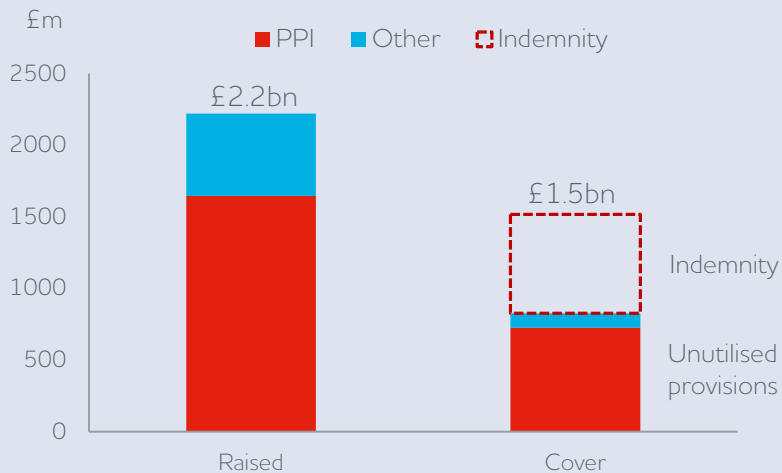
	Sep 15	Mar 16	Sep 16
Discount rate	3.8%	3.5%	2.4%
Inflation	3.3%	3.2%	3.0%

Success of hedging / protection: 110 bps reduction in discount rate £210 million move in IAS19 surplus/deficit

Sensitivity - no mitigation	Impact on DB obligation (£m)
Discount rate +25 bps	(234)
Discount rate -25 bps	253
Inflation +25 bps	170
Inflation -25 bps	(167)

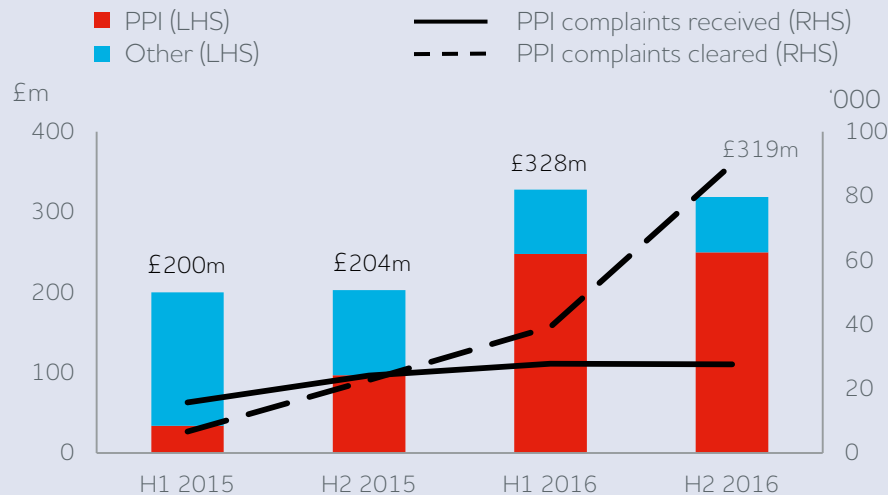
# PROGRESS ON LEGACY CONDUCT

Financial cover for legacy conduct exposures 30 Sep '16



- Total remaining cover £1.5bn for legacy conduct exposure
- Current experience and stress scenarios indicate cover sufficient

PPI provision utilisation



- Significant resource increase (H1 2016)
- Accelerated clearance of PPI claims
- PBR / Remediation progressing



## FY2017 OUTLOOK UNCHANGED

Metric	FY17e
NIM	Broadly stable
Underlying costs	c. £690m - £700m
Loan growth	Mid single digit %
LDR	< 120% <sup>(1)</sup>
CET1	12% - 13% range



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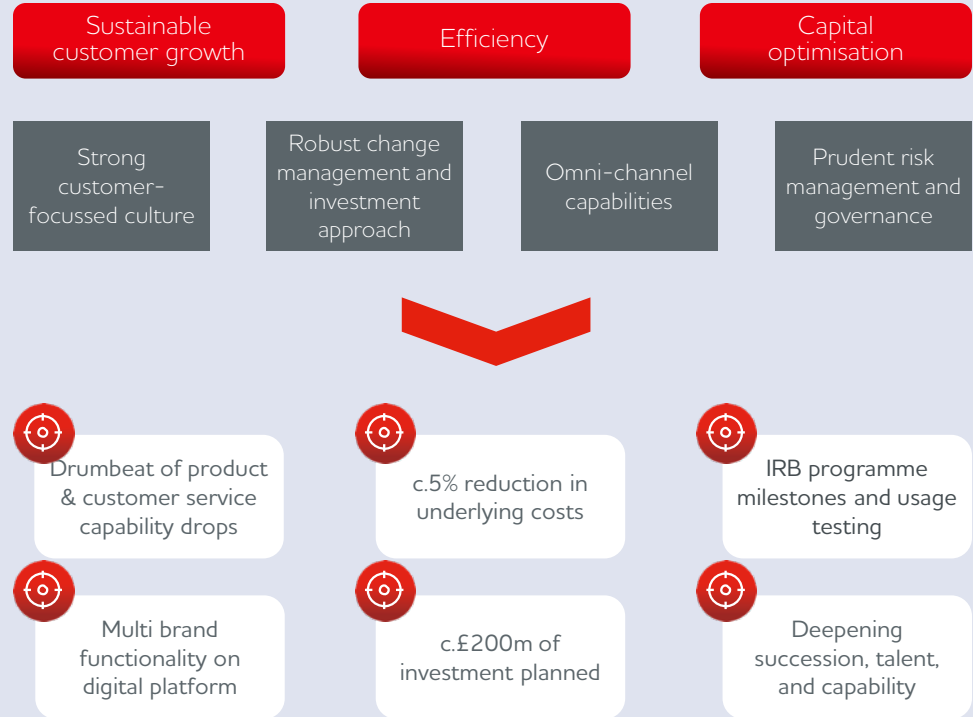
# Outlook and Summary



**David Duffy**  
Chief Executive Officer

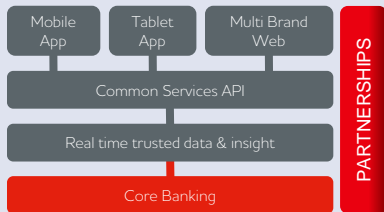
# STRATEGIC DELIVERY IN 2017

- Delivered in FY 2016:
  - ✓ Defined and embedded strategy
  - ✓ Emerged from subsidiary mind-set
  - ✓ Built credibility through delivery of targets
- With renewed focus for FY 2017 and beyond:
  - Leveraging differentiated digital platform
  - Accelerated digitisation of network and processes
  - Increased Omni-channel functionality
  - Ruthlessly delivering cost efficiencies



# OMNI-CHANNEL DIGITAL PLATFORM UNLOCKS SME & RETAIL POTENTIAL

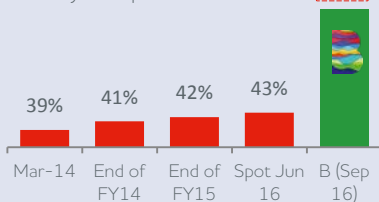
✓ Cutting edge digital platform now operational ...



- 'Digital first' mind-set
- Opportunities to integrate chosen FinTech(s)
- Scalable and resilient core banking

✓ ... successfully deployed in B proposition ...

Primary PCA penetration<sup>(1)</sup>

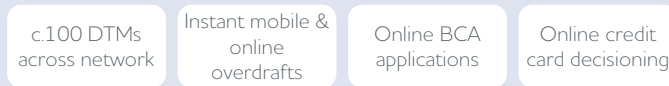


- +47% NPS
- 30% increase in customers from target segments
- Step-change in primary relationships

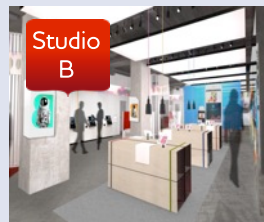
...with further expansion planned in 2017 across brands and digital channel devices for new and existing customers ...



... supported by regular enhancements to customer functionality driving lower cost to serve ...



...with new technology development through a new flagship innovation hub opening in 2017 to be deployed across our distribution channels



Innovation incubated with our customers



Rapid deployment across omni-channel

1. Primary (i.e. main bank) customer must be party to at least one MT account of a selected product type which meets the following criteria: i) credit turnover averaging at least £1000 in the last 3 consecutive months, ii) three or more standing orders or direct debits (or a combination of the three) in place, iii) three or more customer initiated transactions (ATM, point of sale, branch counter services) B PCA penetration excludes new to bank customers and new current accounts as they will not have had time yet to mature as a Primary relationship.



## MEDIUM TERM TARGETS UNCHANGED

## Focused on execution

- 1 Differentiated customer experience through Omni-channel delivery
- 2 Ruthless delivery of strategic priorities



Metric	Medium term guidance
CIR	55% - 58% by FY2019e
Retail lending	Mid single digit % CAGR to FY2019e
SME lending	Mid single digit % CAGR to FY2019e
CET1	12-13%
LDR	< 120% <sup>(1)</sup>
Dividend	Unchanged
RoTE	Double digit by FY2019e

Inorganic opportunities considered where aligned to existing strategy and shareholder value



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Q&A



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# Appendix

## LIMITED STRUCTURAL HEDGE BENEFIT

	FY15		FY16	
	Average Balance (£m)	Notional Income (£m)	Average Balance (£m)	Notional Income (£m)
NIBs	6,946	66	8,037	64
Administered deposits	-		2,700	7
Other	486	5	305	3
Equity	2,782	8	3,402	12
<b>TOTAL</b>	<b>10,214</b>	<b>79</b>	<b>14,444</b>	<b>86</b>

- Structural hedges used to minimise volatility on income related to low & non-interest bearing liabilities and equity
  - Balances hedged with interest rate swaps
  - Tenor based on expected life of liabilities 3 – 5 years

c. 10% of NII

## FTE BREAKDOWN

	September 16	September 15
Core FTE	6,313	6,848
Legacy conduct FTE	533	396
Total FTE	6,846	7,244

# RECONCILIATION OF MANAGEMENT TO STATUTORY EARNINGS

£m	2016	2015
Underlying profit on ordinary activities before tax	221	159
Conduct charges	(51)	(486)
Restructuring expenses	(45)	(17)
Separation costs	(11)	(10)
Net gain on capital and debt restructuring	1	61
Pension increase exchange gain	-	18
Loss on impairment of intangible assets	(45)	(10)
Gain on disposal of VISA shares	7	-
<b>Statutory Profit/(loss) on ordinary activities before tax</b>	<b>77</b>	<b>(285)</b>
Tax (charge)/credit	(241)	56
<b>Statutory loss for the year</b>	<b>(164)</b>	<b>(229)</b>



## BALANCE SHEET

£m		
	September 2016	September 2015
Customer lending (excl. SME)	22,989	21,722
SME - Core Book	6,358	5,992
SME – Non-Core Book	800	1,070
<b>Total Customer Loans</b>	<b>30,147</b>	<b>28,784</b>
Liquid Assets and other	7,686	7,893
Other Assets	2,096	2,028
<b>Total Assets</b>	<b>39,929</b>	<b>38,705</b>
Customer Deposits	27,000	26,349
Wholesale Funding	4,501	3,766
NAB Funding	-	998
Notes in Circulation	1,912	1,791
Other Liabilities	3,305	2,358
<b>Total Liabilities</b>	<b>36,718</b>	<b>35,262</b>
Equity and Reserves	3,211	3,443
<b>Liabilities and Equity</b>	<b>39,929</b>	<b>38,705</b>
<b>Ratios</b>		
LDR	112%	109%
CET1	12.6%	13.2%
Leverage Ratio	6.8%	7.1%



## RWAs

£m	September 2016	September 2015
Retail mortgages	7,998	7,526
Business lending	7,087	7,044
Other retail lending	915	951
Other lending	906	773
<b>Total credit risk</b>	<b>16,906</b>	<b>16,294</b>
Credit valuation adjustment <sup>(1)</sup>	286	206
Operational risk	1,623	1,589
Counterparty risk	214	138
<b>Total RWAs</b>	<b>19,029</b>	<b>18,227</b>
<b>Total Loans</b>	<b>30,147</b>	<b>28,784</b>
<b>Credit RWAs / total loans</b>	<b>56%</b>	<b>57%</b>
<b>Total RWAs / Assets</b>	<b>48%</b>	<b>47%</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 (September 2016) — CYBG PLC

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

## Credit Rating Summary (September 2016) — 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