1 August 2017

CYBG PLC: Third Quarter Trading Update

The Board of CYBG PLC ("CYBG" or the "Group") confirms that trading in the three months to 30 June 2017 has been in line with its expectations, with continued delivery against the Group's strategic targets and objectives.

Highlights:

- Delivering on our FY17 guidance
  - Solid mortgage growth of 5.8% (annualised) for nine months to 30 June with record volumes of applications in Q3
  - Core SME growth of 4.7% (annualised), with robust pipeline supporting our £6 billion 3-year lending commitment
  - NIM increased to 2.29% (annualised) in the nine months to 30 June, with management actions on funding moderating the impact of asset yield pressures
  - Efficiency programme ahead of schedule; management now expect underlying operating costs for the full year to be below £680 million, ahead of previous guidance of £690-700 million
  - LDR of 119% as we manage deposit balances following the restructuring and repricing of more expensive deposits in the first half of FY17

- Continued robust capital position
  - CET1 ratio of 12.4% at 30 June compared to 12.5% at 31 March, comfortably within target range (12-13%)
  - Agreement reached to close the Group's defined benefit pension scheme to future benefit accrual, delivering a substantial reduction in the scheme's funding deficit
  - IRB application process remains on track and in line with previous guidance

- Delivering enhanced customer service and functionality
  - Range of new products and services launched including B credit card, Android Pay for B and digital savings bond
  - More than 80,000 B current accounts now opened since launch in May 2016 with strong deposit flows
  - Yorkshire Bank and Clydesdale Bank named Best Current Account providers at Moneyfacts awards 2017
  - Customer journeys delivering ahead of schedule, driving improved customer processes and operational efficiencies
  - Transition of Clydesdale and Yorkshire customers onto iB platform on track for end of calendar year simplifying our business, enhancing the customer experience, improving data management and reducing time to market

CYBG PLC is registered in England and Wales (company number: **09595911**) and as a foreign company in Australia (**ARBN 609 948 281**) and has its registered office at 20 Merrion Way, Leeds, West Yorkshire LS2 8NZ

David Duffy, Chief Executive of CYBG PLC, commented:

"We have delivered another solid performance this quarter, with increased momentum in mortgage and core SME balance growth despite the competitive environment. Further operational improvements during the year have enabled customer loan growth and cost efficiencies. We remain on track to deliver our guidance for FY2017, and now expect underlying operating costs to be below £680 million which is testament to the success of our restructuring programme.

The digital transformation of CYBG, focused around our market leading iB platform, continues apace and customers are already seeing regular service and products improvements from our £350 million investment programme. We now have over 80,000 B accounts opened and the transition of Clydesdale and Yorkshire Bank customers onto the iB platform remains on track, positioning us well for the world of PSD2 and Open Banking.

While the economic and political environment in the UK remains uncertain, we are focused on delivering our strategic objectives. We remain confident that the medium term strategy we outlined at our capital markets day in September 2016 will differentiate us from our competitors and deliver our FY19 targets as we seek to build a better bank for our customers and staff and improve returns for our shareholders."

Sustainable Customer Growth

CYBG believes that improving the customer experience is the key driver of sustainable customer growth. Through our focus on enhancing customer journeys, investing in our digital platform, iB, opening new flagship stores, broadening our product and service suite, and therefore delivering a truly omni-channel distribution capability, improvements in our customer experience will enable CYBG to grow prudently across our business.

Customer balances

(£bn)	At 30 Sept 16	At 31 Mar 17	At 30 Jun 17	9m growth (annualised)
Mortgages	21.8	22.4	22.8	5.8%
Core SME	6.4	6.4	6.6	4.7%
Unsecured personal	1.2	1.1	1.2	3.1%
Deposits	27.0	26.3	26.2	(4.0)%

Assets

We saw solid growth in mortgages with balances of £22.8 billion at 30 June, growth of 5.8% on an annualised basis. In line with our strategic ambitions, owner-occupier mortgages constitute an increasing proportion of flow at 68% of drawdowns in the nine months to 30 June.

We have maintained focus on balancing volume growth, margin, and prudent credit quality alongside continuous capability enhancements allowing CYBG to capture market share in a low-growth environment. Whether by process improvements through our customer journey initiatives or broadening and deepening our relationships with brokers, continuing to develop and improve our end-to-end customer proposition is a key enabler of growth.

We maintained momentum in our SME franchise, with £1,645 million of gross loans and facilities written in the nine months to 30 June. With drawdowns up 19% year-on-year, our Core SME book increased by 4.7% (annualised) to £6.6 billion at 30 June. We continue to improve our SME customer experience by investing in our service capabilities and the introduction of B for small business customers will be the next step forward in developing our SME customer experience.

Unsecured personal lending balances grew 3.1% (annualised) in the nine months to June to £1.2 billion, with increases in the quarter driven by increased personal loan balances.

The pipeline for new lending across our Retail and SME portfolios remains resilient and we expect this to support loan growth in line with our guidance.

Liabilities

Deposit balances were £26.2 billion at 30 June, broadly flat compared to 31 March, and 4.0% lower (annualised) than the start of the year. Current account balances grew 6.4% (annualised) in the nine months to 30 June driven by both retail and SME inflows and a strong performance from B in both current accounts and savings. Offsetting that growth we have seen a reduction in term deposits and savings balances.

In H1 2017 we undertook a number of actions to improve our deposit mix and reduce funding costs, including simplifying our ISA offering and repricing more expensive term deposits. These actions have, as expected, resulted in a reduction in rate-sensitive deposit balances and enabled us to further reduce our cost of deposits. We continue to broaden and diversify our funding base by investing in new customer capabilities including the launch of new products, such as our digital bond.

We successfully raised over £1 billion of wholesale funding during the quarter, comprising our first MREL-compliant Senior HoldCo issuance of £300 million, and £750 million issuance from our Lanark RMBS programme. We did not draw down on the Bank of England Term Funding Scheme in Q3.

Net interest margin (NIM)

Annualised NIM in the nine months to 30 June was 229 bps (six months to 31 March: 226 bps). We continue to see the benefits of deposit repricing and other funding actions offsetting competitive pressure on asset yields in Retail lending.

In-line with management's business plan and in anticipation of wholesale funding maturities in the first quarter of FY18, MREL and RMBS funding issuance of £1.05 billion in June has increased our holdings of liquid assets in Q4. This issuance will have a limited effect on net interest income and impact on NIM will be as planned. As a result we continue to expect FY17 NIM to be broadly stable versus FY16.

Asset quality

Asset quality remains stable with an impairment charge of 16 bps (annualised) for the nine months to 30 June. We continue to closely monitor customer behaviour and portfolio trends in the context of the economic environment.

Efficiency

We are making good progress in delivering our efficiency programme and are ahead of schedule. As expected, we are seeing the run rate benefits of the initiatives delivered in H1 2017 flow through into current performance and management now expects a year end outcome for underlying operating expenses below £680 million, ahead of previous guidance of £690-700 million. Restructuring charges and other items excluded from underlying costs remain in line with expectations.

Capital optimisation

The CET1 ratio was 12.4% at 30 June, comfortably within our target range of 12-13%. Business growth and restructuring costs were the principal drivers of the reduction from 12.5% as at 31 March.

CYBG's subsidiary Clydesdale Bank PLC has reached agreement that the Group's defined benefit pension scheme will be closed to future accrual of benefits. This will have a positive impact in Q4 on the Group's net IAS 19 position going forward of approximately £86 million. The triennial valuation of the scheme has also been agreed, resulting in a reduced deficit of £290 million and no requirement for CYBG to increase contributions to the scheme. The scheme's closure to future accrual reduced the liabilities in the triennial valuation by approximately £131 million. These and other actions undertaken in finalising the triennial valuation represent a significant de-risking of the Group's pension scheme obligations and will further underpin the accrued benefits of all of the members of the scheme.

The Group continues to progress its IRB application in line with its expectations.

Outlook

Our guidance remains unchanged from that provided in September 2016 except that management now expects underlying operating expenses for FY17 to be below £680 million. We also continue to target a modest inaugural dividend with respect to FY17.

CYBG will publish its FY17 Preliminary Results on 21 November 2017.

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Forward looking statement

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