CYBG PLC INTERIM RESULTS 2016

SIX MONTHS TO MARCH 2016

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This is a brief summary of the highlights of CYBG PLC's interims results for the 6 months to 31 March 2016. The complete interim results announcement, with additional detail and disclosures including Principal Risks and Uncertainties, can be found at www.cybg.com/investor-centre/financial-results

CHAIRMAN'S MESSAGE

I'm delighted to deliver our first set of results as an independent company after our demerger and IPO in February this year and I would like to thank everyone at CYBG for their hard work in delivering a successful outcome. We have a strong international shareholder base who have shown great support for our business, a high calibre leadership team which is now complete and we have refreshed and strengthened the Board with new Non-Executive Director appointments.

We're focussed on building a high performing, customer centric organisation with strong productivity and efficiency. Becoming an independent PLC has been a catalyst for our ongoing cultural transformation.

In the first half we have demonstrated good progress in delivering on our strategy. Going forward we believe sustainable growth, lower costs and capital efficiency will drive improved performance and enhanced returns for shareholders.

Jim Pettigrew
CHAIRMAN, CYBG

WELL POSITIONED TO DELIVER ENHANCED RETURNS AS AN INDEPENDENT COMPANY

I am very pleased to report good progress on all fronts in our first set of results as we execute our strategy as an independent company.

We have a strong momentum in our business, continuing to grow ahead of the market in mortgages and over £1 billion of SME loans and facilities were made available in the first half.

We have also seen encouraging growth in current accounts, with a number of our new products leading the field and making it quicker, simpler and more convenient for customers to access our services. Online account opening can now be completed in under 15 minutes, and we were excited to launch our B digital proposition, including current account, savings account and debit card to help customers with budgeting, saving and tracking how they spend their money.

In the coming months we will add further functionality including "financial projections" and mortgages.

We are also progressing with our plans to become a more efficient, responsive and productive business, and now expect our costs for the year to be £730 million, materially below our previous guidance as we begin to see the benefits of actions we have taken to lower the cost base and standalone and separation costs which were lower than expected.

Across CYBG we are focusing on the future now with confidence. Delivering great service to our customers is at the heart of our bank and over the next six months I am confident we will show continued progress against our targets and delivery of commitments for our customers, our people and our shareholders.

David Duffy
CEO

HIGHLIGHTS

Successfully completed demerger and Initial Public Offering ("IPO"). On 8 February 2016 CYBG PLC ("CYBG") became an independent company listed on the London Stock Exchange ("LSE") and the Australian Securities Exchange ("ASX")

Leadership team complete with recruitment of Mark Thundercliffe as Chief Risk Officer[1]

Clive Adamson and Paul Coby appointed as independent Non-Executive Directors

Delivering on key metrics:

– Net Interest Margin ("NIM") in line with guidance at 225 basis points ("bps"), 2 bps increase vs FY 2015

– 9.8% annualised growth in mortgages

– SME core book stable. Over £1 billion of new loans and facilities in H1, an increase of 10%

– CET1 ratio remains strong at 13.2%

Progress on cost reduction - full year expectation now £730 million down from £762 million

Simplifying and streamlining the business

Building a high performing, customer-centric organisation

Launched omnichannel strategy

(1) Subject to regulatory approval

DELIVERING ON STRATEGIC OBJECTIVES

During the demerger and IPO transaction earlier in the year, we set out our strategy as an independent business – to leverage our capabilities in our existing core markets; continue our successful national growth strategy in selected products; deliver a superior performance for customers by moving to an omnichannel model; and deliver enhanced shareholder returns.

In the first half we have demonstrated good progress in delivering this strategy, with 9.8% annualised growth in mortgages, stabilisation of our core SME book, over £1 billion of new loans and facilities for SMEs made available and continued growth in current accounts.

We have also delivered on key financial metrics with a stable net interest margin and costs running below expectations.

We have begun the process of adapting and streamlining our operational model, while continuing to invest to deliver a better service to customers. We launched a number of new products during the period, culminating with the launch of B, our new digital platform, in early May. We are moving the business towards being more focused on customers, being more commercial and more accountable.

Going forward sustainable growth, lower costs and capital efficiency will drive improved performance and enhanced returns for our shareholders.

FOCUSED ON OUR CUSTOMERS

We remain focused on sustainable, prudent growth and are well positioned in both the retail and business banking segments in which we operate.

We were excited to launch B, our new digital platform, initially offering a current and savings account, and a debit card. We developed B in response to direct feedback from our customers, so it has intuitive and intelligent features, such as "savings pots", "account sweeps" and a unique timeline of transactions on all accounts to help customers in budgeting, saving and spending their money wisely.

Monthly mobile banking log-ins have increased by c.60% year on year and are currently averaging c.8 million customer log-ins per month. Our branch network remains a key element of our omni-channel approach, and in April we announced changes to the network reflecting the evolving patterns in customer usage. A significant number of branches will extend their opening hours, opening on Saturdays, ensuring investment is diverted to the areas where demand is growing. A programme of refurbishments, relocations, co-locations, concept branches and digital development is ongoing, and 26 branches will close over the next six months.

LOWER COSTS

We are making good progress in further refining our cost plans for this year and for the medium term, out to 2020 which we presented during our recent IPO. In the first half underlying costs were £353 million, and our expectation is that for FY2016 costs will be £32 million lower than previously guided, at £730 million. In addition to the changes to our branch network announced in April, we implemented a voluntary severance scheme for senior grade staff. As a result c.150 staff will exit the business in the second half of the year, with the vast majority expected to leave by mid July. We are focusing on four areas where we believe we can have a material impact; the distribution network; process improvement; organisational efficiency; and central cost management and procurement. We will provide an update on our revised medium term plans later this year in September.

FINANCIAL PERFORMANCE

We have delivered on our key financial metrics in the first half. Underlying profitability increased to £107 million from £48 million in the 6 months to September 2015, driven by an increase in operating income, lower costs and reduced charges for bad debts. Compared to the 6 months to 31 March 2015 underlying profitability was lower by £4 million, with higher operating income offset by higher costs incurred from being a standalone business.

Customer loans grew by just under 3%. Asset quality remains strong,

We have continued to see a stabilisation of our core SME book, which was £6,002 million at 31 March, a small increase on September 2015. We continue to run-off lower yielding assets, with our non core book reducing by £170 million in the period. New loans and facilities totalled £1,031 million in the first six months of the year, an increase of 10% compared to the prior period.

There was continued underlying growth in our retail and SME deposits during the period, which was offset by management actions to optimise the mix, pricing and liquidity value of the deposit base, which included the run-off of large highly liquid corporate deposits

NIM was 225 bps, an increase of 2 bps compared with FY 2015 and in line with our guidance of broadly stable.

CAPITAL AND FUNDING

Underlying capital generation of 22 bps in the half (before reflecting the net impact of the Group's proportion of the conduct provision charges), ensured the Group's CET1 ratio remained stable and robust at 13.2%.

The Group continues to have a strong funding and liquidity position. The loan to deposit ratio (LDR) increased from 109% to 113% due to growth in customer lending combined with a managed reduction in short term corporate deposits.

REGULATORY AND ECONOMIC ENVIRONMENT

As a full service, retail focused UK bank, we are well positioned to benefit from a sustainable recovery in the UK economy.

As all of CYBG's operations are in the UK and all of its loans and advances are to customers in the UK, the impact of the referendum on EU membership on our business, financial condition and operational performance will be from any consequential change to macroeconomic conditions in the UK. The regulatory environment continues to evolve, with consultations emerging from the Basel Committee, as well as the PRA and FCA.

We are committed to pursuing an IRB Approach and have begun discussions with the PRA, and look forward to further updates being provided later this year.

We continue to make progress on resolving legacy conduct issues. We have reassessed the level of provision that is considered appropriate to meet current and future expectations of costs in relation to PPI and concluded that a further charge of £450 million is required, incorporating the Group's estimate of the impact of CP 15/39 and an expected time bar for complaints in Summer 2018. It also incorporates a reassessment of the costs of processing cases and the impact of experiential adjustments. Only 9.7% of the charge impacts the Group's income statement (£44m) as a result of the conduct indemnity provided by National Australia Bank ("NAB"). We consider that, based on our updated assumptions, the total cover remaining of £1.8 billion is sufficient to cover the costs of dealing with legacy conduct matters.

PEOPLE

Following the arrival of Gavin Opperman as Customer Banking Director in December, Fergus Murphy as Products Director and Kate Guthrie as Human Resources Director in January, the Executive Leadership team is now complete with the recent appointment of Mark Thundercliffe as our new Chief Risk Officer. Mark will join us towards the end of the financial year.

Clive Adamson and Paul Coby were appointed to the CYBG Board as Non-Executive Directors in May, further strengthening and complementing the Board's expertise and governance oversight. As intimated in our IPO Prospectus, Barbara Ridpath and Alex Shapland have retired as Non-Executive Directors.

Becoming an independent PLC has been a catalyst for our cultural transformation, as we aim to create a high performing, customer-centric organisation and drive accountability and responsibility, alongside appropriate reward structures. Key to our progress is the engagement and commitment of all of our people.

OUTLOOK

For the current financial year we expect underlying costs will now be £730 million, while the remainder of our guidance remains unchanged. We continue to expect NIM to be broadly flat vs. FY15, and growth in our loan book to be in line with our current medium term targets. We expect our loan to deposit ratio to remain under 115% and CET1 to be in the 12% - 13% range.

We will release our Q3 trading update on Thursday 28 July, followed by a Capital Markets Day on 13 September this year.

This will be a deep dive on our future strategy, focused on growth, costs, investment and capital, to update the market on our refreshed plans and improved targets.

Across CYBG we are focusing on the future with confidence. Delivering brilliantly simple service to our customers is at the heart of our bank and over the next six months we are confident we will show continued progress against our targets and delivery of commitments for our customers, our people and our shareholders.

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

6 months to:	31 MAR 16 £ M	31 MAR 15 £ M	30 SEP 15 £ M	MAR 16 vs MAR 15 %	MAR 16 vs SEP 15 %
Net interest income	400	390	397	2.5%	0.7%
Non-interest income	91	95	82	(3.9%)	11.4%
Total operating income	491	485	479	1.3%	2.6%
Total operating and administrative expenses	(353)	(346)	(381)	(2.2%)	7.4%
Operating profit before impairment losses	138	139	98	(1.0%)	41.5%
Impairment losses on credit exposures [1]	(31)	(28)	(50)	(10.7%)	39.0%
Underlying profit on ordinary activities before tax	107	111	48	(4.2%)	Large
Conduct charges	(46)	(21)	(465)		
Restructuring expense	-	(12)	(5)		
Separation costs	(4)	-	(10)		
Net gain on capital and debt restructuring [2]	1	59	2		
Pension increase exchange gain	-	18	-		
Loss on impairment of intangible assets	-	-	(10)		
Statutory profit/(loss) on ordinary activities before tax	58	155	(440)		
Tax (expense)/credit	(22)	(18)	74		
Statutory profit/(loss) attributable to equity holders	36	137	(366)		

[1] Impairment losses on credit exposures relate solely to loans and advances to customers (refer to notes 11 and 12 to the interim 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 note 4 to the interim financial statements).

[2] Includes a £1m gain (6 months to 31 March 2015: £Nil, and 6 months to 30 September 2015: £2m) on debt restructuring. The comparative periods include gains (6 months to 31 March 2015: £61m, and 6 months to 30 September 2015: £Nil) and losses (6 months to 31 March 2015: £2m, and 6 months to 30 September 2015: £Nil), in relation to capital restructuring (refer to notes 4, 5 and 8 to the financial statements).

Customer loans [1]

Customer loans	31 MAR 16 £ M	30 SEP 15 £ M	31 MAR 15 £ M
Mortgages	21,513	20,504	19,642
SME lending			
- Core	6,002	5,992	6,035
- Non-core	900	1,070	1,360
Unsecured personal lending	1,207	1,218	1,255
Total customer loans	29,622	28,784	28,292
Loans and advances to customers	28,725	27,687	26,952
Other financial assets at fair value	894	1,093	1,335
Due from customers on acceptances	3	4	5
Total customer loans	29,622	28,784	28,292

[1] Spot balances excluding accrued interest receivable.

Customer deposits [1]

Customer deposits	31 MAR 16 £ M	30 SEP 15 £ M	31 MAR 15 £ M
Current accounts	12,871	12,982	12,473
Variable rate savings accounts	7,880	7,790	7,258
Fixed rate term deposits	5,344	5,483	5,389
Other wholesale deposits	72	94	89
Total customer deposits	26,167	26,349	25,209
Due to customers	26,114	26,282	25,133
Other financial liabilities at fair value	53	67	76
Total customer deposits	26,167	26,349	25,209

[1] Spot balances excluding accrued interest payable.

FORWARD LOOKING STATEMENTS

The information in this document may include forward looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as 'expects', 'aims', 'targets', 'seeks', 'anticipates', 'plans', 'intends', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward-looking statements, as well as those included in any other material discussed at any presentation, are subject to risks, uncertainties and assumptions about the CYBG Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/ or geopolitical factors, changes to law and/ or the policies and practices of the Bank of England, the Financial Conduct Authority and/ or other regulatory bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, asset position and/ or credit ratings of the CYBG Group, the status of the UK's membership of the European Union, and future capital expenditures and acquisitions.

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