31 January 2017

CYBG PLC: First Quarter Trading Update

The Board of CYBG PLC ("the Group") confirms that trading in the three months to 31 December 2016 has been in line with its expectations, with continued delivery of our strategic objectives.

Highlights:

- Q1 trading in line with expectations, with continued sustainable growth in assets and deposit balances, despite continuing competitive market conditions:
  - Mortgage book increased to £22.1 billion at 31 December – annualised growth of 4.4%, ahead of the market[1].
  - Maintained momentum in new SME lending with £574 million in new loans and facilities
  - Focussed on sustainable growth whilst maintaining margin and credit quality.
  - Deposit balances up 4.7%, annualised, since 30 September 2016, driven by strong performance in current accounts and savings balances.

- On track to deliver FY 2017 financial targets:
  - Net Interest Margin (NIM) broadly stable at 222 bps in the period.
  - On track to deliver planned c. 5% reduction in underlying costs year on year.
  - CET1 increased to 12.8% at 31 December 2016.
  - FY17 guidance remains unchanged.

- Investment programme on track, focused on improving the customer experience, our distribution capabilities and maximizing the potential of our digital platform:
  - Significant progress on network optimisation and branch automation with continued rollout of smart ATMs[2] across the network providing faster and more convenient customer service.
  - Continued investment in our digital functionality, with significant uplift in mobile activity seen across the period.
  - NAB TSA[3] exit and IRB[4] programme progressing to plan.

1. *Based on Bank of England data UK mortgage market grew 2.2% annualised Sept '16 to Nov '16.*
2. *ATMs that take deposits as well as dispensing cash.*
3. *Transitional Service Agreement entered into with National Australia Bank at de-merger.*
4. *IRB programme– Internal Ratings Based Approach ("IRB") permits banks to use their own models to assess the appropriate required capital for risk, subject to approval from the regulator, the PRA. CYBG has established a programme to transition the bank to IRB.*

David Duffy, Chief Executive of CYBG PLC, commented:

"We have made a solid start to the financial year and are on track to achieve our financial targets as planned. We have also made good progress in delivering on our strategic priorities.

Despite a competitive market, we continue to grow assets prudently while focusing on sustainable margins and portfolio management. Whilst there is some uncertainty created by Brexit, economic indicators in the UK have proved resilient since the referendum vote. To date we have not seen any negative impact on asset quality, but we continue to monitor market conditions closely.

Our cost delivery remains on track as we implement structural change as part of our transformation programme and associated headcount reductions, in line with expectations.

We remain focused on executing our strategy to deliver improved returns for shareholders through sustainable growth, efficiency and capital optimisation, while focusing on customer experience."

Sustainable Customer Growth

Net Interest Margin (NIM)

NIM in the three months to 31 December was 222 bps (twelve months to 30 Sep 2016: 226 bps; three months to 31 December 2015: 222 bps). As expected, asset yields came under pressure from the start of the period following the August 2016 base rate reduction, along with increased competition in retail lending markets. We saw the benefits of deposit repricing begin to offset these pressures towards the end of the period, alongside other measures to reduce funding costs, including a modest drawdown on the Bank of England Term Funding Scheme in December.

We continue to focus on active portfolio management and expect to see the benefits of lower deposit costs and the Term Funding Scheme in the coming quarters, supporting our target of a broadly stable NIM over the full year vs FY 2016.

Assets

We saw continued growth in mortgages with balances of £22.1 billion at 31 December 2016, representing growth of 4.4% on an annualised basis, continuing the trend of growth significantly in excess of system which was 2.2%, based on Bank of England data for October and November 2016.

Gross mortgage lending was £1,139 million (vs. £1,178 million in Q1 FY2016), while net mortgage lending was £240 million in the 3 months to 31 December 2016 (vs. £337 million in Q1 FY2016). We remain focused on a balanced approach to volume growth, margin management, mix and prudent credit quality.

We maintained our momentum in SME origination, with £574 million of gross loans and facilities written in the quarter. Strong new business drawdowns of £503 million, up 12% vs Q1 FY2016, were offset by higher than expected redemptions by a small number of larger borrowers whose facilities were repaid, principally as a result of M&A activity or asset sales.

As a result, the Core SME book reduced by 0.6% (c. £40 million) in the three months to 31 December 2016.

We continue to see a healthy pipeline to support new lending in 2017, in line with our loan growth targets.

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Liabilities

Overall deposit balances grew by 4.7% annualised vs. 30 September 2016, driven by continued momentum in business current accounts, and growth in personal current accounts and savings balances. Deposit costs continued to fall benefitting from management repricing actions.

LDR remained stable at 111% (30 September 2016: 112%).

Asset quality

Asset quality remained strong with impairment charges of 6 bps (annualised) in the three months to 31 December 2016, benefitting from higher than expected recoveries in SME.

Customer balances

(£bn)	At 31 Dec 15	At 30 Sept 16	At 31 Dec 16	YTD growth (annualised)
Mortgages	20.8	21.8	22.1	4.4%
Core SME	6.0	6.4	6.3	(2.5)%
Unsecured personal	1.2	1.2	1.1	(5.2)%
Deposits	26.5	27.0	27.3	4.7%

Efficiency

We are focused on tight operating cost control and are on track to deliver our target of £690 million – £700 million in underlying costs for this year.

We continue to make good progress in all four areas of our efficiency programme, as outlined at our Capital Markets Day in September last year, with restructuring activity and costs in line with expectations. We have made significant progress on network optimisation and branch automation, with the continued rollout of smart ATMs and the start of the next stage of our branch transformation programme announced earlier this month.

Our programme to optimise 22 key customer journeys is progressing, with three customer journeys completed in Q1, and solid progress across eight others which are all on track to complete this year.

We are starting to see the benefits come through from our focus on customer experience, as evidenced by the latest *Which?* report on customer satisfaction, which showed strong improvements for both the Clydesdale and Yorkshire brands.[1]

Capital Optimisation

CET1 increased to 12.8% at 31 December 2016, vs 12.6% at 30 September 2016, due to organic capital generation and a reduction in the pension scheme accounting deficit.

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

1. *Which? Money* magazine (February 2017) customer satisfaction survey. Survey undertaken in September 2016.

Outlook

Our FY17 guidance remains unchanged from that provided in September 2016:

- NIM to be broadly flat in FY17 vs. FY16
- Mid single-digit loan growth
- Loan to deposit ratio < 120%[1]
- Underlying costs of £690 million - £700 million
- CET1 to be in the 12% - 13% range

CYBG is holding its Annual General Meeting today at the Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Melbourne, Victoria 3006, at 10:00 AEDT.

CYBG will publish its FY2017 Interim Results on 16 May 2017.

For a definition of the Key Performance Indicators, refer to page 113 of CYBG PLC's Preliminary Results Announcement on 22 November 2016.

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1. *Assuming participation in BoE Term Funding Scheme*

Forward looking statement

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In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. There can be no assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document and/ or discussed at any presentation. All forward-looking statements should be viewed as hypothetical. No representation or warranty is made that any forward-looking statement will come to pass. None of the Company, its subsidiaries subsidiary undertakings, holding companies, subsidiaries, subsidiary undertakings of its holding companies, associated entities or businesses, or their respective directors, officers, employees, agents, advisers or affiliates, undertakes to publicly update or revise any such forward-looking statement nor accepts any responsibility, liability or duty of care whatsoever for (whether in contract, tort or otherwise) or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of, the information in this document.

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