28 July 2016

CYBG PLC: Third Quarter Trading Update

The Board of CYBG PLC ("the Group") confirms that trading in the 3 months to 30 June 2016 has been in line with expectations and prior guidance.

Highlights:

- CYBG continues with business as usual, supporting our customers and delivering a positive third quarter result:
  - £1.5 billion new SME loans and facilities in 9 months to 30 June, 4% up on prior period;
  - Mortgage book £21.7 billion at 30 June, annualised growth of 8% vs 30 September;
  - Successful launch of B on 3 May;
  - Continued growth in core deposits;
- Strong Net Interest Margin (NIM) at 227bps.
- Cost management firmly on track to meet full year guidance of £730m.
- Continued capital strength – CET1 increased to 13.5% at 30 June.

David Duffy, Chief Executive of CYBG PLC, commented:

"We are making good progress in executing our strategy.

We continue to support our customers through the current period of uncertainty following the EU Referendum result. We made £ 1.5 billion available to small and medium sized businesses in the first nine months of the year, growth of 4% on the same period last year. As expected growth in mortgages returned to target levels after the surge in buy to let in Q2, with the majority of new business in owner occupied.

We are pleased that the early customer reaction to B has been positive, with a high level of engagement on social media and positive reviews. B is already broadening our customer demographic and reach outside of our core regions and is now an integral part of our omni-channel strategy.

We remain focused on delivering returns for shareholders through sustainable growth, lower costs and capital efficiency while adapting to the new economic environment."

Q3 Trading

Customer balances (£bn)	At 30 Sept 15	At 31 Mar 16	At 30 Jun 16	YTD growth (annualised)
Mortgages	20.5	21.5	21.7	8%
Core SME	6.0	6.0	6.2	5%
Unsecured personal	1.2	1.2	1.2	(4)%
Deposits	26.3	26.2	26.4	Flat

Assets

SME gross loans and facilities granted in the 9 months to 30 June were 4% higher than the prior period. In the 9 months to 30 June CYBG has made available £1,507 million of new loans and credit facilities to small and medium sized businesses, with growth in the core SME lending book of 5% (annualised) in line with our strategic aims, and an increase in the overall SME book for the first quarter in 4 years.

Net mortgage lending was £1.2 billion in the 9 months to 30 June, compared to £1.8 billion in the prior period, with mortgage balances at 30 June of £21.7 billion (growth of 8% annualised). This was lower than the growth seen in the first half, as expected, given the increase in buy to let mortgage loans in the second quarter as customers brought forward applications in advance of the change to Stamp Duty on 1 April. In the third quarter mortgage origination returned to our planned mix, with a majority of our new business in owner occupied. Average portfolio loan to value (LTV) at 30 June 2016 was 55%, with front book LTV 69%.

Based on Bank of England data for the year to 31 May, the Group's market share of gross mortgage lending was 2.1%, against a share of mortgage balances of 1.7%, and over the same period the Group's mortgage balances grew 5.5% vs. system growth of 1.2% demonstrating our ability to win market share on a sustainable basis.

Reflecting the hard work of colleagues across the Bank and a commitment to delivering a superior experience to customers, Clydesdale and Yorkshire Bank was highly commended in the "Best Bank - Mortgage Provider" category at the Moneyfacts Awards 2016.

Funding

Our funding position remains strong, with growth in savings and current accounts funding asset growth. Deposit costs continued to fall benefitting from repricing earlier in the year. LDR remained stable at 113% (31 Mar 2016: 113%) and, as expected, there was no observable impact on funding and liquidity after the EU Referendum vote. Deposits grew in the quarter (4% annualised) but overall deposit balances were flat vs 30 September 15, as a result of management actions to optimise the deposit base in the first half as discussed in our interim results.

B was successfully launched on 3rd May to a positive reception, reaching 10.4m people to date via social media channels, attracting both new customers and current Clydesdale and Yorkshire Bank customers switching to B. Initial account openings are ahead of management expectations, with a higher proportion of customers from younger and more affluent segments compared to the existing current account portfolio, and a higher proportion of new customers coming from outside our core region compared to our previous £150 current account switching promotion.

On 21st July we successfully priced £750m of 2 year Lanark RMBS, backed by residential mortgages, reopening the GBP RMBS market, with the largest GBP tranche size since 2012.

Net Interest Margin (NIM)

NIM in the 9 months to 30 June increased to 227 bps (12 months to 30 Sep 2015: 223 bps; 6 months to 31 March 2016: 225 bps), slightly ahead of guidance as a result of tight management of funding costs and liquidity in a competitive lending environment.

Costs

CYBG continues to focus on tight operating cost control, and remains on track to deliver its target of £730 million for underlying costs in FY16. Costs in the second half are expected to be higher than the first six months, primarily due to the timing of the FSCS levy payment and a higher level of depreciation and amortisation due to recent investment

As previously noted, in the quarter the Group recognised an exceptional charge of £19 million (excluded from the £730m target) in relation to the closure of 26 branches and the completion of a voluntary severance scheme. We expect annualised run rate benefits of around £13 million from FY17 as a result of these initiatives. The Group continues to focus on actions to reduce costs over the medium term.

Asset quality

Asset quality remains strong with impairment charges of 14 bps (annualised) in the 9 months to 30 June.

Outlook

Following the EU Referendum, we are mindful of the greater uncertainty now facing the UK economy and how this will impact on our customers and the demand for credit. Our size and scale, strong funding base and balance of assets across retail and SME lending gives us the flexibility to adapt to the changing economic climate. As previously outlined, the opportunity to simplify our business, reduce costs and increase capital efficiency by moving to IRB will underpin the delivery of our strategy, notwithstanding more complex market conditions. Our flexibility will also enable us to selectively target growth opportunities in specific market segments as they arise.

We welcome the measures taken by the Financial Policy Committee of the Bank of England to make extra capital available to support lending to UK businesses and households in this challenging time. The reduction in our counter-cyclical buffer was around £100m. This creates additional capacity, subject to customer demand and our normal risk appetite criteria, to make over £2 billion of new mortgage loans or nearly £1 billion of new SME loans.

It is too early to draw any firm conclusions regarding market conditions and the revised outlook for balance sheet growth from the short trading period since the referendum, but for Clydesdale and Yorkshire banks it has been business as usual and we will continue to support customers through the current period of uncertainty and beyond with our range of products for both consumers and SMEs. Our pipeline for SME lending remains robust, higher than in June 2015, while mortgage approvals in June were in line with levels seen at the start of the financial year. We will continue to monitor developments and react accordingly.

As a straightforward, UK focused retail and SME bank, the key drivers of the performance of our loan book will be macro-economic conditions in the UK, primarily interest rates, house price inflation and unemployment and we will closely monitor the outlook for these measures. Our robust underwriting standards, portfolio diversification and strong asset quality mean our loan portfolios are well placed to weather more challenging economic conditions.

There has been a great deal of speculation about the direction of travel for UK interest rates. The elements of CYBG's balance sheet that are most sensitive to Base Rate movements are the tracker mortgage portfolio (11% of mortgage lending), SVR and other variable rate mortgages (22%), variable rate savings without a floor (26% of customer deposits) and non-interest bearing liabilities and equity (NIBs) subject to structural hedging. Around 80% of business lending is also priced off Base Rate or LIBOR. Decisions on pricing of variable rate products will be made in the context of the market and interest rate environment. Management estimates that a Base Rate reduction from 50 bps to 25bps in the last quarter of FY16, that is fully reflected in market swap rates, would reduce FY17 net interest income by £10 to 15 million, all other things being equal and before management actions.

Although there is some uncertainty as to the potential medium term impact arising from the EU Referendum outcome we do not expect any significant impact in the short term. Accordingly our FY16 guidance remains largely unchanged from that provided at the interim results on 24 May, namely:

- Underlying costs of £730 million for FY16
- NIM to be broadly flat in FY16 vs. FY15
- Loan to deposit ratio to remain under 115%
- CET1 to be in the 12% - 13% range over the medium term

As noted above, the outlook for CYBG's medium term balance sheet growth is subject to a degree of uncertainty following the EU Referendum outcome. The Group will continue to execute its strategy and lend to customers in line with its prudent risk appetite, and there are no current indications of a reduction in demand for credit in the short term.

CYBG will hold a capital markets day in London on 13 September to update in detail on the Group's strategy and financial targets, and will publish its 2016 full year results on 22 November.

For a definition of the Key Performance Indicators, refer to page 4 of the CYBG PLC Interim Results 2016.

Enquiries:

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CYBG will be hosting a short conference call for analysts and investors on this trading update at 7:30am BST / 4:30pm AET today. Dial in details:

UK Freefone:	0800 6781161
UK Direct: Australia toll free: Australia local: USA toll free: USA local:	01296 311600 18 0003 5387 +61 (0) 2 8223 9237 1866 804 8688 +1 718 354 1175

Passcode: 127 912

Please dial in approximately 10 minutes before the start time.

A recording of the conference call will be made available on our website www.cybg.com before 12 noon BST on the 28th July.

For a full list of access numbers please go to: www.btconferencing.com/globalaccess/?bid=54_attended

The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation No 596/2014. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

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 repercussions of the UK's referendum vote to leave the European Union, and future capital expenditures and acquisitions.

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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