CYBG PLC INTERIM FINANCIAL REPORT 2017

Interim financial report

For the six months ended 31 March 2017

Contents

Overview

CYBG PLC (the "Company"), together with its subsidiary undertakings (which together comprise the "Group"), operate under the Clydesdale Bank, Yorkshire Bank and B brands. It offers a range of banking services for both retail and business customers through retail branches, Business Banking centres, direct and online banking, including B, and brokers.

Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.

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.

The forward looking statements disclaimer can be found on page 76.

CYBG PLC

INTERIM FINANCIAL REPORT 2017

Continued momentum in asset growth and overall financial performance

Underlying profit before tax up 15% - remain on track to deliver FY2017 guidance

Continued delivery of full service omni-channel capability and launch of UK's first consumer innovation lab, Studio B

H1 2017 highlights

- Underlying profit before tax - up 15% to £123m
  - Net Interest Margin (NIM) stable at 226bps reflecting active margin management against a backdrop of a competitive market
  - Driving positive "jaws" through income growth up 1.2% (£497m in H1 2017) and continued cost reduction - underlying costs £348m, £5m lower than H1 2016
  - Underlying earnings per share (EPS) of 9.0p per share, up 25% on 31 March 2016
  - Asset quality improved with continued low impairment charges - cost of risk of 15bps
  - Robust and stable capital position - common equity tier 1 (CET1) ratio of 12.5%
  - Underlying return on tangible equity (RoTE) 6.3% in H1 2017 up from 4.5% H1 2016
  - Statutory profit before tax £46m, after deduction of restructuring and charges for legacy conduct matters

- Growing customer lending and relationship deposits in competitive markets
  - Mortgage growth of 5% annualised was ahead of market - mortgage balances increased to £22.4bn
  - Core SME book growth 3% annualised - over £1bn of new loans and facilities granted under our commitment to make £6bn of lending available to SMEs over three years (2017-19)
  - Focused on prudent underwriting standards reflecting uncertainty in the economic environment
  - Strong growth in current account balances and B savings

- Focused on delivering a differentiated customer experience, leveraging our iB digital platform
  - Market leading iB platform central to our differentiated customer service offering
  - Awarded Digital Launch of the Year 2017 for B app
  - New seamless account opening through online, branch or contact centre for flexible ISA accounts and private current accounts
  - Customer journey programme on track - mortgage application-to-offer reducing to 10 days, current account opening being streamlined to 20 minutes; 8 out of 22 customer journey reviews now completed
  - Digital adoption rates continue to increase - usage up 27% in past 12 months and B app usage doubled in H1
  - Opened Studio B, UK's first consumer innovation lab in London
  - Developing a new market leading e-lending solution for small business customers in collaboration with FinTech partners

- Delivering on our promises and on track to deliver FY2017 guidance
  - Strong and stable NIM
  - On track to deliver planned underlying costs of £690-700m
  - Momentum in customer lending to deliver mid single digit % growth
  - CET1 ratio comfortably within target range (12-13%)
  - Continuing to target a modest inaugural dividend with respect to FY2017

Jim Pettigrew, Chairman CYBG PLC, commented:

"CYBG has had a good start to 2017, building on the momentum created in our first year as an independent business.

We remain focused on our strategy to leverage our digital capabilities and scalable infrastructure to support our growth ambitions and deliver a superior customer experience.

The Group's financial performance has been good in the first half of the year and we continue to target a modest inaugural dividend in respect of 2017.

CYBG offers a true alternative in UK banking - a full service challenger bank designed around our customers' lives, which is supporting households and businesses across the UK."

David Duffy, Chief Executive Officer CYBG PLC, commented:

"In the first half of this year we have maintained momentum in delivering our strategic priorities and commitments, and as a result are delivering significantly improved financial performance.

Our half year results show improved underlying profit, good loan growth, stable margin, continued delivery of our cost programme and improved returns - all delivered in a highly competitive market and continuing low growth, low interest rate environment.

As the only true full service challenger bank of scale across both retail and SME in the UK market, we have been able to deliver ahead of market growth in mortgages and growth in core SME banking, as well as making a strong start to our commitment to provide up to £6bn of lending to SMEs over the next three years.

We have maintained excellent progress on the delivery of our plan to provide a truly full service omni-channel model for customers, driven by the expanding capabilities we have through our iB digital platform.

Whether it be prototyping new technologies, opening the UK's first consumer innovation lab, Studio B, or collaborating with FinTech partners with the development of our new small business e-lending solution, we are building a bank focused on a differentiated customer experience that will put customers more in control of their money."

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CYBG will be hosting a presentation for analysts and investors on the interim results for the 6 months ended 31 March 2017 at its offices at 15 Floor, 122 Leadenhall Street, London EC3V 4AB, starting at 08:30 BST today (17:30 AEST). The meeting will be webcast live and along with a copy of the presentation will be available at www.cybg.com. Webcast participants will be able to send questions into the meeting. Alternatively there is a conference call facility to listen to the meeting. Dial in details:

UK Freefone:	0808 109 0700
UK Direct: Australia toll free: Australia local (Melbourne): Australia local (Sydney): USA toll free: USA local:	+44 (0) 20 3003 2666 1 800 681 584 +61 (0) 3 9008 6206 +61 (0) 2 8014 9383 1 866 866 5335 +1 212 999 6659

Passcode: CYBG
Please dial in approximately 10 minutes before the start time.

Webcast Link: http://webcast.openbriefing.com/cybg_hyr_16052017/

A recording of the webcast and conference call will be made available on the website www.cybg.com shortly after the meeting.

Business and financial review

Key Performance Indicators [1]

	6 months to 31 Mar 2017	6 months to 31 Mar 2016	12 months to 30 Sep 2016
Profitability:			
NIM	**2.26%**	2.25%	2.26%
Underlying RoTE	**6.3%**	4.5%	5.2%
Underlying cost to income ratio (CIR)	**70%**	72%	74%
Underlying return on assets	**0.47%**	0.45%	0.45%
Underlying basic EPS	**9.0p**	7.2p	16.2p
Statutory RoTE	**1.2%**	0.9%	(7.2)%
Statutory CIR	**86%**	82%	88%
Statutory return on assets	**0.15%**	0.19%	(0.42)%
Statutory basic earnings/(loss) per share	**1.7p**	1.4p	(22.5)p

As at:	31 Mar 2017	31 Mar 2016	30 Sep 2016
Asset Quality:			
Impairment charge to average customer loans (cost of risk)	**0.15%**	0.19%	0.09%
90+ days past due (DPD) to customer loans	**0.51%**	0.50%	0.50%
Gross impaired assets to customer loans	**0.66%**	0.93%	0.77%
Specific provision to total impaired assets	**36.6%**	36.9%	30.8%
Total provision to customer loans	**0.77%**	0.90%	0.79%
Indexed loan to value (LTV) of mortgage portfolio[2]	**56.9%**	57.2%	55.7%
Regulatory Capital [3] :			
CET1 ratio	**12.5%**	13.2%	12.6%
Tier 1 ratio	**14.8%**	15.6%	15.0%
Total capital ratio	**18.0%**	19.0%	18.2%
Leverage ratio	**6.7%**	7.1%	6.8%
Tangible net asset value (TNAV) per share	**283.3p**	317.4p	284.1p
Funding and Liquidity:			
Loan to deposit ratio (LDR)	**117%**	113%	112%
Liquidity coverage ratio (LCR)	**112%**	112%	140%
Net stable funding ratio (NSFR)	**120%**	117%	124%

(1) For a definition of each of the Key Performance Indicators, refer to the Glossary and Abbreviations on pages 291 to 296 of the Group annual report and accounts for the year ended 30 September 2016. The Key Performance Indicators include both statutory and alternative performance measures. For details on alternative performance measures, refer to footnote 1 on page 10.

(2) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the MIAC Acadametrics indices at a given date. Prior period comparatives have been restated on the new basis of indexation, which were previously presented using the Halifax house price index.

(3) The capital ratios include unverified profits.

Business and financial review (continued)

Chief Executive's review

Overview

CYBG has continued to deliver in H1 2017, remaining focused on executing our 3 year strategic plan to establish ourselves as the UK's leading full service challenger bank able to disrupt the market for retail and SME customers.

Following the demerger and IPO in February 2016, we are building a bank that gives customers more control of their money, with a clear plan for leveraging CYBG's existing strengths to deliver a differentiated experience for our customers, while improving shareholder returns.

Central to this plan is our omni-channel strategy – our approach is increasingly enabling our customers to operate across all channels seamlessly and to start a transaction in one channel and be able to finish it in another; customers should be able to do what they want, when they want and how they want and that is what we are building towards.

We are making significant investments in our technology platform to deliver this plan and support our customers by providing them with the propositions, functionality and service they need if they are to feel in control of their money and be confident in managing their finances. Key to this is iB - a new digital platform that is scalable and connectable to Fintech solutions and more established technology partners as well as our own build and design.

The investment in our iB platform, alongside our core banking system, significantly advances our capabilities, enabling us to roll out new technology developments to all CYBG customers, regardless of brand, channel or segment - with all personal and small business customers able to use the iB platform on mobile and web by the end of the 2017 calendar year.

With its open architecture, the iB platform is also allowing us to consider a range of collaborations with financial and non-financial technology partners, such as the development of a new small business e-lending solution and the new voice activation technology we have been prototyping with Amazon's Echo device.

The launch of the UK's first open consumer innovation lab, Studio B, in Kensington is a physical manifestation of these expanding capabilities and demonstrates our commitment to work with others for the benefit of our customers, as well as our ability to deliver a true omni-channel proposition to our retail and SME customers.

Delivering our Strategic Objectives

I want to thank our customers for their business and loyalty, and to assure them that we are focused on improving our products, service and capabilities.

Our growth and financial performance in the first half of the year demonstrates progress on the delivery of our strategic objectives of sustainable customer growth, efficiency and capital optimisation. Our £350m 2 year investment programme is progressing to plan and is driving the roll out of our omni-channel capabilities across our digital, direct and physical channels.

We delivered 5% annualised growth in mortgages - ahead of the market - and maintained momentum in growing our core SME book at 3% annualised, with core SME balances growing 7% over the last 12 months, whilst maintaining stable margin, demonstrating the sustainability of our strategy in a competitive environment.

We are delivering efficiency through automating and improving processes and streamlining our customer network, contact centres and our back office which will better position us to meet the evolving needs of our customers. We have made progress on the simplification of the 22 key customer journeys we identified last year: we have completed 8 reviews so far and are pushing forward on a further 14.

Our capital optimisation programme is also progressing well and we have submitted our waiver application to move to Internal Ratings Based (IRB) accreditation to the PRA.

Sustainable customer growth

Our strategic focus on sustainable customer growth is underpinned by enhancing our digitally enabled omni-channel offering.

Our approach is simple and designed around our customers. We want to help customers manage their money in a seamless way through whichever channel they choose - online, mobile, tablet, phone, branch - whenever they want - and we want to extend the capabilities we have developed for our B customers through our iB platform to all CYBG customers, retail and SME.

We are already delivering on this vision. Our digital transformation seeks to maximise the use of technology, introducing tools that enable our people to deliver great customer outcomes. In this period, we have added new digital capability, enabling customers to obtain Gold Mastercard credit cards, open flexible ISA and private current accounts through online, branch and contact centre channels. We also built on the successful launch of B which initially was enabled with current account, savings account and debit card functionality. While our wider digital usage is up 27% over the past 12 months, after extending customer functionality with savings pots and budget across both mobile and tablets, B app usage has doubled since September 2016.

Business and financial review (continued)

Chief Executive's review (continued)

In the second half of 2017, as we continue to build product and service enhancements for our customers across all our channels, we will launch a new B credit card, and a new B for business banking proposition to help small businesses manage their finances. So far B is attracting a higher percentage of customers from our target markets of younger, more affluent consumers and has generated a higher net promoter score than the rest of our business, with strong growth in deposits as customers engage positively with the app's money management tools.

Since 2011, the number of customers using their branch for day-to-day transactions across the UK banking industry has fallen by a third. This ongoing decline in branch usage, alongside a sustained increase in digital and mobile usage, underlines the importance of our ambition to offer a truly omni-channel service to customers where they can access day-to-day banking services remotely, on the move and outside of normal business hours as well as in branch. In January we announced our decision to close 40 Clydesdale Bank branches and 39 Yorkshire Bank branches. Our branch network remains an important part of our omni-channel strategy, and alongside these changes, we opened a new flagship Customer Banking Centre in Edinburgh, delivering a state of the art one-stop-shop for customers, homebuyers and business clients.

Within the retail segment our focus for current accounts is to grow sustainably in a way that recruits the right profile of customer with whom we have an opportunity to build a long-term relationship. Current account balances increased by 4.5% in the period. We have made significant changes to our mortgage proposition, making it easier for customers to do business with us. Our mortgage approvals are now valid for 180 days, and we now allow all mortgage customers to switch to a new offer up to 3 months before the end of a fixed rate term, with no early repayment charge. These developments have helped us deliver 5% annualised growth in mortgages. Enhancements to the personal loan proposition in the next half include scorecard enhancements, the launch of a larger loans proposition and pre-assessment functionality for customers.

In the SME segment, we have grown lending to our core customers, following last year's strong performance, with annualised growth of the core SME book of 3% in H1 2017. We have announced our commitment to make up to £6bn of lending available to SMEs from 2017 to 2019 to help fuel the growth of small and medium sized businesses in the UK. This pledge fits with our growth targets for lending and demonstrates our commitment to support SME customers and regional growth in the UK - particularly in the northern economic corridor which will be an increasingly important focus for us as we continue to grow our business. We are continuing to develop our product, service and location propositions for key customer segments, as we actively seek to grow our lending portfolio and support our customers.

Our collaboration with FinTech Ezbob Ltd is targeting the development of a market leading e-lending solution with straight through capability for small business customers. When launched, our intention is that small business customers will be able to benefit from faster decision making and fulfilment of funds, through a competitive, fully digital, easy to use, convenient and accessible on-line application. The technology will target a fully automated review and approval for the customer, typically in less than 10 minutes, with funding provided on acceptance.

Efficiency

At our Capital Markets Day in September 2016 we announced that we were targeting the delivery of more than £100m of cost savings by 2019 which would give us a cost base in that year of less than £630m. In addition, we guided to FY2017 underlying costs in the range of £690m - £700m, a 5% reduction from FY2016. In the period to March 2017, underlying costs were £348m, a reduction of £28m from H2 FY2016 which keeps us on track to deliver on our FY2017 targets. These savings were driven by progress in all four key areas of our cost reduction programme:

1. *Customer Banking transformation* - The branch network will reduce by c.30% in the second half due to closures announced in January. This will reduce the number of front line roles but optimise our physical branch network.
2. *Improved customer service* - During FY2016 we identified 22 key customer journeys that will be optimised end-to-end through simplification and automation. So far 8 of these 22 customer journey reviews have been completed and we are accelerating delivery of the remainder. Improvements to date include a reduction in the time to open a bank account from 45 minutes in a branch and 12 days on phone to 20 minutes for both.
3. *Right model* - We have completed a review of all support areas which will ensure that our middle and back office is right-sized and that our organisational design principles are applied consistently by the end of FY2017.
4. *More for less* - We have continued to improve how we procure services from third parties, the suppliers we use and the value we receive.

As previously announced, the cost to deliver these initiatives is estimated to be c. £200m pre-tax, with £45m incurred in FY2016 and £53m in H1 2017. The full costs are included within our CET1 guidance. As a result of the actions taken we have delivered cumulative gross run rate savings of £71m and remain on track to deliver over £100m gross savings by FY2019.

Chief Executive's review (continued)

Capital optimisation

The Group maintained a strong and stable capital position with our CET1 ratio steady at 12.5%.

We remain committed to securing IRB accreditation in line with our previously communicated timetable, subject to Prudential Regulation Authority (PRA) approval. We recently took the important step of submitting our IRB waiver application to the PRA. Securing IRB accreditation will provide evidence of the improvements and enhancements the Group has made in embedding strong risk management practices, and driving a stronger alignment of risk appetite and strategy and is also likely to reduce the intensity of our risk weighted assets (RWAs) and potential future bail-in debt requirement (MREL), therefore improving the Group's competitive positioning. In addition to ensuring our IRB capabilities are firmly embedded across all areas of the Group, we are also considering the commercial implications for future strategies and growth plans that IRB accreditation will present while recognising that until approval we remain a Standardised Bank.

Financial performance

In the first half of 2017 we remained on track to deliver against our FY2017 guidance set out at our FY2016 results presentation. Underlying profit on ordinary activities before tax increased by 15% in the period to £123m from £107m in the prior period. The improved performance was a combination of higher income and reductions in costs and loan impairment charges.

Our customer lending book continued to grow at a mid-single digit rate driven by mortgage sales where we continued to outperform the overall market. Our core SME balances have grown 7% over the last 12 months, with annualised growth in H1 2017 of 3% following a small number of large exceptional redemptions in the first quarter. Our non-core portfolio continued to run off as planned. We remain cautious in the unsecured lending market, taking a disciplined approach to pricing in a competitive market - this, along with weakened consumer sentiment in the period, saw the book reduce by 3% on an annualised basis in H1 2017, although this reduction slowed in Q2.

Overall customer deposit balances reduced in the period. We saw 4.5% growth in current account balances, with strong recruitment of business current accounts (BCAs) and substantial growth in B savings balances, and we reduced our volumes of relatively expensive fixed rate deposits, ISA savings accounts and non-core corporate deposits through extensive repricing.

Our ability to manage down funding costs was a key driver of the increase in NIM in Q2 - overall NIM was stable at 2.26% in the period - a positive performance given the Bank of England (BoE) base rate reduction in August 2016. Yields on our interest earning assets reduced following the base rate reduction.

Expenses fell as our cost reduction programme gathered momentum. These savings were offset by an increase in costs associated with the defined benefit pension scheme. We also booked £53m of restructuring costs which included both redundancy and property closure costs, as we restructure our business.

Our asset quality measures remained strong in the period reflecting the relatively benign economic backdrop and our prudent approach to risk appetite.

Statutory profit before tax of £46m is £12m lower than the period to March 2016, reflecting restructuring expenses, separation costs and charges for legacy conduct matters.

Our key funding and capital ratios remain in line with our guidance. LDR increased to 117% as we replaced more expensive customer deposits with £1.9 billion of TFS funding. Our CET1 ratio was 12.5%, 10 bps lower than September 2016. Organic capital generation funded our business growth, while restructuring costs, separation costs and charges related to legacy conduct issues absorbed 34 bps of CET1.

Economic and regulatory environment

Following the UK vote to leave the EU in June 2016, we have planned for a continuing low growth and low interest rate environment, and have maintained an appropriate risk appetite for lending, a prudent approach to funding and margin dynamics, and a strongly capitalised balance sheet. This approach to planning means we are well placed to continue to deliver on our long-term performance targets.

Since June 2016, the UK economy has been more robust than was initially anticipated, principally driven by better than expected consumer confidence. Despite this the overall environment remains uncertain pending clarity on the Article 50 negotiations and any subsequent agreement on trading arrangements between the UK and the EU.

Business and financial review (continued)

Chief Executive's review (continued)

The UK housing market continued to grow and we expect to continue to outperform system growth in mortgage lending. Our mortgage and SME pipelines remain in line with expectations although the market remains highly competitive. We expect the prolonged low interest rate environment to continue for some time and have partly mitigated this negative impact by drawing £1.9 billion of low cost funding from the TFS in the first half.

The impact of higher inflation and its influence on consumer confidence will continue to be a key area of focus with potential knock on implications for consumer spending and business activity.

We continue to make progress on resolving our legacy conduct issues and in common with other UK banks have reviewed the level of provision we consider appropriate in light of the Regulator's policy statement on payment protection insurance (PPI) issued on 2 March 2017 and increased our provisions by £150m. As a legacy conduct issue this additional provision is covered by the Conduct Indemnity Deed in place with National Australia Bank (NAB), limiting the cost of this additional provision to CYBG to £15m pre-tax.

The regulatory environment continues to evolve and we remain focused on positioning our business effectively to manage these changes, including consideration of emerging regulation as a result of the new Payment Services Directive and the UK authorities' Open Banking initiatives.

People

We continue to invest heavily in our human capital and the infrastructure supporting our staff, given the critical role our people play in delivering a differentiated experience for our customers.

We have a number of key initiatives underway in support of our People Strategy, which are key to our cultural transformation.

We have begun the launch of our new Values and Behaviours and our CYBG Leadership Framework. They reflect who we are as a UK challenger bank, are centred on our customers, and set out very clearly the Behaviours we believe will set us apart from the competition. The Values and Behaviours will underpin our new Performance Management Framework which will be launched in quarter one of 2018.

Our independent status and exciting position in the UK financial services market has enabled us to attract a highly capable and more diverse group of senior leaders to add depth and strength to our existing leadership. We are now investing in our community of leaders and equipping them with new, modern performance management tools to help them get the very best from every colleague in CYBG.

We are continuing to progress our Strategic Reward Review which is focused on ensuring all elements of our reward package provide value for both the colleague and the company and that we are positioned to compete for talent. We are well into the consultation process to close our Defined Benefit Pension Scheme to future accrual. In the event of us being able to progress the closure, we will release a significant amount of investment in other elements of reward, notably an improved Defined Contribution Pension Scheme for all colleagues and a Flexible Benefits package.

We launched our new HR platform, ourPeople, in February 2017. This has been well received by our colleagues and people leaders, and will be integral to the transformation of the workplace in CYBG and the changes to our internal systems landscape.

I would like to thank our people for their continued commitment to our customers and business as we work through a period of change and evolution.

Awards

CYBG's brands continue to receive industry awards and during the first half won Digital Launch of the Year for B in the 2017 FStech Awards, 2016 Best High Net Worth Lender in the Mortgage Force Awards, 2016 Best Regional Lender and Best Mortgage Lender Scotland in the Your Mortgage Awards for Yorkshire Bank and Clydesdale Bank respectively, and the 2016 Bank of the Year in the Insider Yorkshire Dealmaker Awards. We were also awarded UK Digital Bank of the Year 2016 by Capital Finance International magazine.

Community

We have a long tradition of supporting local communities. Since 2008 we have raised over £5.5m for our chosen charity, Hospice UK, and have active relationships with a number of local organisations. These include our support for The Royal Zoological Society of Scotland's Wild about Scotland education programme which to date has provided biodiversity lessons to over 20,000 children at over 400 primary schools across Scotland. Also, our support for Scotland's Charity Air Ambulance has helped it respond to over 1,300 time critical emergency call-outs. We encourage active cycling and the Yorkshire Bank Bike Libraries, in association with Cycle Yorkshire, have to date provided over 31,000 opportunities for children and adults across Yorkshire to borrow a bike free of charge. Through our Spirit of the Community Awards, now in their 5th Year, we will donate £150,000 to 30 charities this year. We have an active volunteering programme and provide Employee Volunteer Grants for those who volunteer in their own time. A fifth of our people donate to charity via Payroll Giving.

Business and financial review (continued)

Chief Executive's review (continued)

Outlook

We have continued to make strong progress in the first half of the year and remain on track to deliver our FY2017 targets.

Short Term Performance Targets

Metric	H12017	FY2017e	Status
NIM	2.26%	Broadly stable	On target
Underlying costs	£348m	c. £690m - £700m	On target
Loan growth	4% (annualised)	Mid single digit %	On target
LDR	117%	< 120% (1)	On target
CET1	12.5%	12% - 13% range	On target

(1) Includes impact of participation in TFS

At the Capital Markets Day, we refreshed plans for the next three years to 2019, bringing forward and improving two key targets. We now anticipate that we will deliver, by the end of 2019, a CIR ratio of 55%-58% (previously <60% by 2020) and double digit RoTE (previously by 2020).

Medium Term Targets

Metric	Medium term guidance	Status
CIR	55% - 58% by FY2019e	On target
Retail lending	Mid single digit % Compound Annual Growth Rate (CAGR) to FY2019e	On target
SME lending	Mid single digit % CAGR to FY2019e	On target
CET1	12% - 13%	On target
LDR	< 120% (1)	On target
Dividend	Modest inaugural dividend in respect of 2017; in time 50% of earnings (2)	On target
RoTE	Double digit by FY2019e	On target

(1) Includes impact of participation in TFS
(2) After paying Additional Tier 1 (AT1) distributions.

In order to deliver these medium term targets we targeted more than £100m of sustainable cost reductions by 2019, in addition to the cost savings already delivered in 2016, after incurring pre-tax restructuring costs of c.£200m. We also expect to fully transition to the IRB basis of measuring RWAs on a whole bank basis during FY2019, subject to regulatory approval. Our CET1 ratio is expected to remain in the range of 12% to 13% throughout this period.

We can confirm that our dividend ambition remains unchanged, targeting a modest inaugural dividend with respect to 2017 with a longer term goal to pay out up to c.50% of earnings (after paying AT1 distributions).

David Duffy
15 May 2017

Business and financial review (continued)

Financial analysis

The Group's financial results for the period reflect a strong start to the year as we made progress against our strategy and tracked in line with our FY2017 guidance, delivering Group underlying profit before tax of £123m, £16m higher than the period to March 2016.

This strong performance was delivered against a backdrop of economic and market pressures, which manifested in base rate cuts and competitive pricing across the industry. In spite of these pressures, we delivered growth in our mortgage and core SME lending portfolio. In addition, we took steps to improve our funding mix, with a shift from higher cost deposits towards lower cost funding; this strategy drove a reduction in funding costs. Together these factors led to a 1bps increase in NIM to 2.26% period on period.

Progress was also made in our cost reduction programme, with the early effects of savings arising from the various efficiency initiatives underway starting to be reflected in the financial results. This, together with the increase in net interest income, had a positive impact on the underlying cost to income ratio, which reduced from 72% to 70% period on period.

Group profit also benefited from the continued stabilisation of asset quality across our portfolio, which drove lower default rates and reduced levels of impaired lending.

Statutory profit before tax of £46m is £12m lower than the period to March 2016, reflecting restructuring expenses, separation costs and charges for legacy conduct matters.

Underlying and statutory results [(1)]

	6 months to		
	31 Mar 2017 £m	31 Mar 2016 £m	30 Sep 2016 £m
Net interest income	**411**	400	406
Non-interest income	**86**	91	92
Total operating income	**497**	491	498
Total operating and administrative expenses	**(348)**	(353)	(376)
Operating profit before impairment losses	**149**	138	122
Impairment losses on credit exposures [(2)]	**(26)**	(31)	(8)
Underlying profit on ordinary activities before tax	**123**	107	114
Conduct charges	**(19)**	(46)	(5)
Restructuring expense	**(53)**	-	(45)
Separation costs	**(5)**	(4)	(7)
Net gain on debt restructuring	**-**	1	-
Impairment of intangible assets	**-**	-	(45)
Gain on disposal of VISA share	**-**	-	7
Statutory profit on ordinary activities before tax	**46**	58	19
Tax expense	**(16)**	(22)	(219)
Statutory profit/(loss) attributable to equity holders	**30**	36	(200)

(1) These results contain a number of adjusted or alternative performance measures, also known as non-GAAP financial measures. Aspects of these results exclude certain items, which are listed below, which management believe are not representative of the underlying performance of the business and which inhibit period-on-period comparison.

- Conduct charges - Customer redress and associated costs arising from legacy products and past sales practices.
- Restructuring expense - Restructuring of the business is currently ongoing with costs including redundancy payments, property vacation costs and associated enablement costs which do not impact underlying performance.
- Separation costs - Costs incurred directly relating to the demerger from NAB.
- Net gains on debt restructuring - Gains arising on the repurchase of subordinated debt from NAB at the time of the demerger.
- Impairment of intangible assets - The impairment of historic development costs and legacy software developed pre demerger.
- Gain on disposal of VISA share - A one-off gain recognised on the disposal of the Group's VISA Europe Limited share.

There is no change in how underlying performance has been defined or calculated during the year.

(2) Impairment losses on credit exposures relate solely to loans and advances to customers (refer to note 11 to the interim condensed consolidated 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).

Business and financial review (continued)

Financial analysis (continued)

Net-interest income and margin	6 months to 31 Mar 2017 £m	31 Mar 2016 £m	30 Sep 2016 £m
Interest income and similar income	**534**	550	551
Interest expense and similar charges	**(123)**	(150)	(145)
Total net-interest income	**411**	400	406

Gross interest income and similar income decreased versus the period to March 2016 by £16m (2.9%) to £534m. The base rate reduction, together with the fall in LIBOR rates in parallel with the base rate movement, impacted 46% of the Group's customer lending portfolio which is on a variable rate. The effects of these rate reductions combined with competition in the market continued to exert downward pricing pressure on the Group's lending portfolio, with average yields reducing by 16bps to 2.9%. However, the impact of this reduction was partially offset by volume increases as the Group delivered good growth in its mortgage and SME portfolios.

Gross interest expense reduced in the period by £27m relative to the comparative period to March 2016, driven by active portfolio management on customer rates across the savings portfolio. Term deposit costs continued to be managed downwards as more expensive deposits were replaced at a lower rate. Overall this drove a reduction in average yields on interest bearing liabilities of 21bps to 0.82%.

The above factors combined to drive an increase of £11m (2.7%) in net interest income period on period. As average interest bearing assets saw a similar increase, Group NIM remained broadly stable at 2.26% (March 2016: 2.25%).

Business and financial review (continued)

Financial analysis (continued)

Average balance sheet and NIM analysis	6 months ended 31 Mar 2017			6 months ended 31 Mar 2016		
	Average balance £m	Interest income/ (expense) £m	Average yield/ (rate)[1] %	Average balance £m	Interest income/ (expense) £m	Average yield/ (rate) [1] %
Interest earning assets:						
Mortgages	22,052	325	2.96	20,868	335	3.22
SME lending [2]	7,023	130	3.72	6,883	131	3.82
Unsecured personal lending	1,157	53	9.23	1,230	61	9.97
Liquid assets	5,770	10	0.35	6,136	17	0.55
Due from other banks	961	1	0.16	486	1	0.27
Due from related entities [3]	-	-	-	391	1	0.37
Swap income/other	-	15	n/a	-	4	n/a
Total average interest-earning assets	36,963	534	2.90	35,994	550	3.06
Total average non interest-earning assets	2,440			2,588		
Interest bearing liabilities:						
Current accounts	10,956	(3)	(0.05)	10,733	(6)	(0.11)
Savings accounts	8,257	(22)	(0.54)	7,943	(32)	(0.82)
Term deposits	5,301	(48)	(1.83)	5,439	(59)	(2.16)
Other wholesale deposits	3	-	(0.95)	95	-	(0.94)
Debt securities in issue	4,314	(44)	(2.06)	3,887	(40)	(2.08)
Due to other banks	1,373	(6)	(0.84)	646	(2)	(0.59)
Due to related entities [3]	-	-	-	607	(11)	(3.48)
Total average interest-bearing liabilities	30,204	(123)	(0.82)	29,350	(150)	(1.03)
Total average non interest-bearing liabilities	6,419			6,187		
Total average equity attributable to ordinary equity holders	2,780			3,045		
NIM [4]	2.26%			2.25%		

(1) Average yield is calculated by annualising the interest income/expense for the period.

(2) Includes loans designated at fair value through profit and loss.

(3) The average for the six months includes the related party balances with NAB for the four months to January 2016. Effective from 8 February 2016 these have moved to the relevant third party lines.

(4) Net interest income as a percentage of average interest earning assets. Net interest income is 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).

Business and financial review (continued)

Financial analysis (continued)

	6 months to		
Non-interest income	**31 Mar 2017 £m**	31 Mar 2016 £m	30 Sep 2016 £m
Gains less losses on financial instruments at fair value	**3**	3	6
Fees and commission	**73**	77	74
Net fair value movement on investment properties	**-**	-	(1)
Other income	**10**	11	13
Total underlying non-interest income	**86**	91	92
Net gain on capital and debt restructuring	**-**	1	-
Gain on disposal of Visa share	**-**	-	7
Total statutory non-interest income	**86**	92	99

Statutory non-interest income reduced by £6m (6.0%) compared with March 2016, largely driven by a reduction in fees and commission income, principally in relation to insurance revenues from off-sale products which have continued to unwind, and lower home insurance profit share due to a higher level of claims.

	6 months to		
Operating and administrative expenses	**31 Mar 2017 £m**	31 Mar 2016 £m	30 Sep 2016 £m
Personnel expenses	**135**	137	143
Depreciation and amortisation expense	**42**	41	47
Other operating and administrative expenses	**171**	175	186
Total underlying operating and administrative expenses	**348**	353	376
Conduct charges	**19**	46	5
Restructuring expense	**53**	-	45
Separation costs	**5**	4	7
Impairment of intangible assets	**-**	-	45
Total statutory operating and administrative expenses	**425**	403	478
Underlying CIR	**70%**	72%	76%
Statutory CIR	**86%**	82%	95%

On an underlying basis, personnel expenses reduced in the period in line with headcount, with the effects of the reduction in salaries and related employee costs partially offset by a rise in defined benefit pension scheme costs.

Other operating and administrative expenses benefited from a reduction in NAB charges of £4m, however this was offset by a marginal increase in costs within other categories. Underlying these movements, the Group's cost base has reduced as a result of the impact of central cost management activity, which has delivered early savings that more than offset the impact of contractual inflation increases. Whilst benefits from the Group's strategic cost efficiency initiatives are now starting to be realised, the full financial effect of these initiatives, such as the branch closures and redundancy programmes announced in January 2017, will not be seen until the second half of the financial year and into 2018.

The above factors, together with the increase in net interest income, had a positive impact on the underlying CIR, which reduced from 72% to 70% period on period.

Business and financial review (continued)

Financial analysis (continued)

The costs associated with the implementation of the Group's transformation programme amounted to £53m in the period, and largely comprises property closure and redundancy costs. Whilst these have been offset in part by lower conduct charges, overall these have driven a 4% increase in the statutory CIR to 86%. Fundamentally however, this increase in the cost base (on a statutory basis) reflects the Group's commitment to its strategy of increased efficiency, which requires shorter term investment in order to realise longer term benefits.

In the first half of the year the Group reassessed the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and concluded that a further charge of £150m was required incorporating the Group's estimate of the impact of the Regulator's policy statement issued on 2 March 2017 relating to a proposed time bar for complaints in August 2019. It also incorporated a reassessment of the costs of processing cases and the impact of experience adjustments. The Group has also raised further provisions of £40m for other less significant conduct related matters. In aggregate, only 9.7% of the charge, or £19m, impacts the Group's income statement. The Group continues to assess the impact of resolving legacy conduct issues on an ongoing basis.

Impairment losses on credit exposures	6 months to		
	31 Mar 2017 £m	31 Mar 2016 £m	30 Sep 2016 £m
Impairment losses on credit exposures	**26**	31	8

Impairment losses on credit exposures have reduced by £5m (14.1%). Prudent underwriting standards and controlled risk appetite have resulted in continued stabilisation of asset quality across the portfolio, driving lower default rates and reduced levels of impaired lending.

	6 months to	
Tax expense	**31 Mar 2017 £m**	31 Mar 2016 £m
Tax expense on underlying profit	**29**	21
Other tax (credit)/expense	**(13)**	1
Tax expense on statutory profit	**16**	22
UK corporation tax rate	**19.5%**	20.0%
Effective tax rate - underlying profit	**23.5%**	19.7%
Effective tax rate - statutory profit	**34.8%**	38.0%

The statutory effective tax rate of 34.8% is higher than the statutory rate of 19.5% due to a deferred tax prior year charge of £4m, and a further charge of £7m due to a change in the deferred tax rate. The charges are offset by the net conduct indemnity credit of £5m.

The charge arising from the change in the deferred tax rate is the result of two factors. Assets have unwound at a lower rate than originally predicted because there is no practical impact of the Bank Surcharge for the Group at this time. There has also been a reduction in the long term average rate at which balance sheet deferred tax assets and liabilities are valued as the mainstream corporation tax rate trends toward 17%.

Note 6 to the interim condensed consolidated financial statements details the differences between the tax charge at 31 March 2017 and 31 March 2016.

Business and financial review (continued)

Financial analysis (continued)

Balance sheet

Assets	As at	
	31 Mar 2017 £m	30 Sep 2016 £m
Mortgages	22,376	21,836
SME lending [(1)]		
- Core	6,439	6,357
- Non-core	740	800
Unsecured personal lending	1,135	1,153
Gross loans and advances to customers	30,690	30,146
Accrued interest receivable	75	76
Unearned, deferred and unamortised fee income	(58)	(55)
Impairment provisions	(223)	(215)
Loans and advances to customers	30,484	29,952
Other financial assets	8,983	9,227
Other non-financial assets	761	750
Total assets	40,228	39,929

(1) Includes financial assets at fair value of £570m (September 2016: £750m).

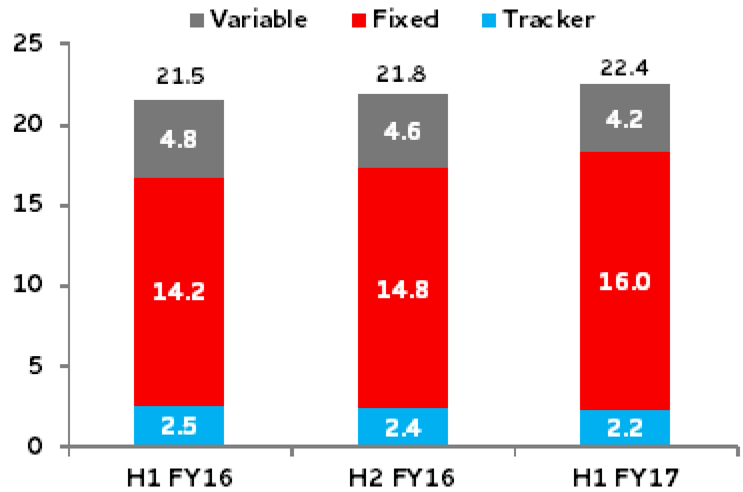
Asset quality	%	%
Retail mortgages:		
Proportion of retail mortgage accounts 90+ DPD	0.54	0.51
Indexed LTV of the retail mortgage book	56.9	55.7
SME lending:		
Proportion of SME lending 90+ DPD	0.40	0.49

The Group continued to see growth in its mortgage and core SME portfolios whilst successfully managing the run off in the non-core SME book. Overall total assets remained broadly flat in the period.

Business and financial review (continued)

Financial analysis (continued)

Mortgages



Mortgages comprise the Group's largest asset portfolio and have a significant impact on its overall financial performance. The mortgage portfolio increased by 5% (annualised), higher than system growth[(1)] of 2.2% (annualised). In line with our competitors, we continue to see customers favour fixed rate mortgage products, which accounted for 94% of mortgages drawn in the period.

The average LTV of new lending in the period was 69.7%. Overall average LTV of the Group's retail mortgage portfolio remains stable, with no change to our robust underwriting criteria. Our proportion of residential mortgages 90 days in arrears has remained stable at 0.54% (September 2016: 0.51%) as the UK continues to benefit from low unemployment.

Past due balances fell slightly to £283m (September 2016: £285m). Impairment provisions have fallen £2m to £37m (September 2016: £39m) reflecting the modest improvement in past due balances and house price growth in the period.

SME lending

In SME lending the core portfolio continued to grow, with an increase of £82m (2.6% annualised) since September 2016, slightly below system growth[(2)] of 2.7% annualised. Drawdowns were 5% higher than in the second half of 2016, although net lending was impacted by large repayments. The book is well diversified across the product portfolio.

The Group continues to run off its non-core portfolio, which reduced from £800m to £740m during the period.

Unsecured personal lending

The Group's unsecured personal lending portfolio comprises credit cards, personal loans and overdrafts. Unsecured personal lending balances reduced in the period by £18m (1.6%), albeit at a slower rate than in the prior comparative period. Fixed rate personal loans have been the key driver of the reduction, with amortising balances exceeding origination volumes as the Group managed origination flows in a competitive market environment where headline rates fell below 3% in the quarter to 31 March 2017.

(1) System growth is sourced from the BoE "*Mortgages outstanding by type of lender, UK (BOE)*" report (MM4).

(2) System growth is sourced from the BoE *"Industrial analysis of monetary financial institutions' lending to UK residents"* report (c1.2), and excludes individuals and individual trusts, activities auxiliary to financial intermediation, insurance companies & pension funds and financial intermediation (excluding insurance and pension funds) results.

Business and financial review (continued)

Financial analysis (continued)

Liabilities	As at 31 Mar 2017 £m	As at 30 Sep 2016 £m
Current accounts	**13,848**	13,248
Variable rate savings accounts	**7,429**	8,240
Fixed rate term deposits (1)	**5,056**	5,500
Other wholesale deposits	**-**	12
Total customer deposits	**26,333**	27,000
Accrued interest	**82**	138
	26,415	27,138
Due to other banks	**2,980**	1,309
Debt securities in issue	**4,180**	4,501
Other financial liabilities	**415**	602
Other non-financial liabilities	**2,989**	3,168
Total liabilities	**36,979**	36,718

(1) Includes financial liabilities at fair value of £32m (September 2016: £48m).

Other key ratios:		
LDR	**117%**	112%
LCR	**112%**	140%

We continued to work on optimising our liability base in the half. We grew our current account balances by 4.5%, with particular success in recruiting new Business Current Account deposits which were up 7.9% We also took a number of actions to restructure elements of our deposit book - to improve the deposit mix and reduce funding costs. In particular we simplified our ISA product range, collapsing our three Cash ISA products into a single Flexible ISA offering, repriced around £9.8bn of liabilities and undertook a managed exit of £0.7bn of non-relationship corporate deposits with low liquidity value.

Current accounts

Funding provided by current accounts increased by £0.6bn (4.5%) since September 2016, due to continued growth on business current account balances (£0.4bn) driven by the ongoing 25 month fee free offer and system growth; continued growth in B current account balances (£0.1bn); and a number of other normal deposit inflows (£0.3bn). This was partly offset by the managed run-off of £0.2bn of corporate current accounts.

Variable rate savings accounts

Variable rate savings account balances decreased by £0.8bn (9.8%) since September 2016 primarily driven by £0.8bn of attrition on ISAs largely due to repricing actions, and the managed run-off of corporate deposits of £0.4bn. This was partially offset by continued strong performance in our digital offering with the B savings account attracting an additional £0.4bn of deposits in the 6 months to March 2017.

Fixed rate term deposits

Fixed rate term deposits decreased by £0.4bn (8.1%) since September 2016, driven by the Group's ongoing strategy to proactively run off the higher rate back book and price origination in line with current market rates.

Due to other banks

The Group previously indicated its intention to participate in the TFS which provides cash secured against eligible collateral and has a four year maturity. In the period the Group has drawn £1.9bn (September 2016: nil) under this scheme as we continue to optimise our funding mix. Drawdowns under the scheme arose mainly in the second quarter, giving rise to an average balance of £0.5bn in the half.

Business and financial review (continued)

Financial analysis (continued)

Debt securities in issue

Debt securities in issue decreased by £0.3bn (7.1%) since September 2016, largely due to scheduled repayments on the residential mortgage backed securities (RMBS) programmes of £297m in the period.

Liquidity coverage

The Group's liquidity position benefited from an increase in wholesale funding at September 2016, which led to a higher than normal LCR of 140% at that time. The LCR ratio returned to a more normal operating level of 112% at March 2017.

Business and financial review (continued)

Asset Quality

Key Credit Metrics	31 Mar 2017	6 months to 31 Mar 2016	30 Sep 2016
Impairment charge on credit exposures (£m)			
SME lending (including lease finance)	**15**	20	11
Retail lending	**11**	11	(3)
	26	31	8
Of which:			
Specific charge for impairment losses	**26**	25	-
Collective charge for impairment losses	**-**	6	8
	26	31	8

	31 Mar 2017	As at 31 Mar 2016	30 Sep 2016
Impairment provisions held on credit exposures (£m)			
SME lending (including lease finance)	**165**	172	157
Retail lending	**58**	62	58
	223	234	215
Of which:			
Specific provision	**72**	90	64
Collective provision	**151**	144	151
	223	234	215
Credit risk adjustments held on loans at fair value (£m)			
SME lending	**14**	32	24
Of which:			
Individually assessed credit risk adjustments	**2**	12	8
Collectively assessed credit risk adjustments	**12**	20	16
	14	32	24
Impairment credits on loans held at fair value	**(4)**	(3)	(11)
Past Due and impaired assets (£m)			
90+ DPD assets	**157**	148	150
Impaired assets [(1)]	**203**	277	233
Asset quality measures (%)			
90+ DPD plus impaired assets to customer loans	**1.17%**	1.43%	1.27%
Specific provision to total impaired assets [(2)]	**36.6%**	36.9%	30.8%
Net write-offs to customer loans [(3)]	**0.15%**	0.18%	0.18%
Total provision to customer loans [(4)]	**0.77%**	0.90%	0.79%
Impairment charge to average customer loans [(5)]	**0.15%**	0.19%	0.09%

(1) Impaired assets as at March 2017, March 2016 and September 2016 include £4m, £34m and £19m of impaired fair value loans respectively.
(2) Total specific provision includes the individually assessed credit risk adjustments on loans at fair value.
(3) Net write offs includes loans at fair value.
(4) Total provision to customer loans includes the credit risk adjustments on loans at fair value through profit and loss.
(5) Impairment charge to average customer loans includes loans held at fair value through profit and loss.

The benign credit environment, prudent underwriting standards and controlled risk appetite have all resulted in a portfolio with strong asset quality and a low impairment charge to average customer loans ratio.

Within the retail portfolio, the level of impaired mortgage lending remains modest against a growing book. This is reflective of the high asset quality of the portfolio supported by the prolonged period of low interest rates and improving residential house prices. There has been a marginal increase in the level of 90+ DPD for both the secured and unsecured portfolios.

Business and financial review (continued)

Asset Quality (continued)

SME asset quality metrics improved in the period, reflective of a strong customer focused culture and prudent risk management, combined with the diversified nature of the portfolio. Nevertheless there remains sensitivity to changes in the UK economic outlook following the vote to leave the EU, with 2017 expected to bring a reduction in economic growth rates and an increase in inflation.

The level of impairment losses on credit exposures has reduced by £5m (14.1%) from £31m at March 2016 to £26m for the period to March 2017, reflective of continued stabilisation of asset quality across the portfolio driving lower default rates and reduced levels of impaired lending.

The ratio of total provisions to customer loans reduced by 2 basis points to 0.77% in the 6 months to 31 March 2017, driven by the reduced levels of provision required for assets held at fair value and continued growth in the portfolio, particularly mortgages which have a lower provisioning requirement.

Capital and Funding

	Capital change (bps)	CET1
At 30 September 2016		12.6%
Generated	49	
Absorbed by business growth	(45)	
AT1	(7)	
Core business - net capital absorbed	(3)	
Restructuring costs	(24)	
Separation costs	(2)	
IAS 19 pension deficit	24	
Conduct costs	(8)	
Other	(1)	
At 31 March 2017		12.5%

During the first half of 2017 the Group continued to maintain its strong capital position with a fully loaded CET1 ratio, after accruing for foreseeable dividends on AT1, of 12.5%.

Underlying capital generation by the core business pre AT1 dividend was 4bps, largely driven by strong underlying profits offset by growth in mortgages and SME lending, with RWAs increased by £352m. After absorbing the net impact of AT1 payments, pension movements, and below the line charges such as the Group's proportion of conduct provision charges, separation costs and restructuring charges, the Group's CET1 ratio was 10bps lower at 12.5%. This represents a surplus of 4.1% to the CRD IV Maximum Distributable Amount threshold and 5.5% to the CET1 trigger on CYBG's AT1 capital instrument.

The Group continues to maintain its strong funding and liquidity position and seeks to achieve an appropriate balance between profitability and liquidity risk. LDR increased from 112% to 117% due to growth in customer lending combined with a managed reduction in short term corporate and higher rate term deposits. This remains well within our FY2017 target of <120%.

Capital requirements

The Group's capital requirements are set by the PRA, consisting of an Individual Capital Guidance plus Capital Buffer Requirements and the Group had a surplus to these requirements at 31 March 2017. This included a Pillar 2A requirement set at 4.6% of RWAs, 2.6% of which must be met by CET1 capital. The Capital Buffer Requirements include a Capital Conservation Buffer (CCB), Counter-cyclical Buffer (CCyB) and PRA Buffer. The CCB is currently 1.25% of RWAs and will increase each year to reach 2.5% on 1 January 2019. The CCyB is currently 0% but, dependent on the BoE's view of the economy, could rise in future years.

In March 2017 the BoE announced details of its 2017 stress tests to assess the resilience of major UK banks. Under the BoE's stress-test hurdle rate framework each bank continues to be expected to meet its minimum Pillar 1 and Pillar 2A CET1 capital requirements after the stress, which for the Group is 7.1% as at 31 March 2017.

On 1 January 2022 the Group will have to meet a Minimum Requirement for Own Funds and Eligible Liabilities (MREL). The BoE provided the Group's MREL guidance, including transitional arrangements, in late 2016. An interim MREL requirement of 18% of RWAs has been set at the Group level from 1 January 2020 until 31 December 2021. The BoE will advise the Group on its ultimate MREL requirement in 2020. The Group is working towards implementation of the requirement and plans to issue new senior unsecured securities gradually over the next 5 years which are eligible to meet MREL. These issuances have been reflected in the Group's strategic plans.

Business and financial review (continued)

Principal risks and mitigating actions

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

In line with the UK Corporate Governance Code (the 'Code') requirements, the Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity.

Principal risks	Key mitigating actions
Credit Risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Group in accordance with the terms agreed. Credit risk is evident at both a portfolio and transactional level.	• Significant credit risk strategies, credit risk appetite and tolerances for credit risk are approved and reviewed by the Board and the Risk Committee, and inherent in the Group's business model. • Alongside changes in the economic environment, the credit portfolio is closely monitored including risk sensitivity analysis and reviews of asset quality metrics, with actions initiated where required.
Balance Sheet & Prudential Regulation Risks cover a number of categories of risk which, combined, affect the manner in which the Group can support its customers in a safe and sound manner. Balance sheet risks include the risks of an inability to withstand times of stress for the loss of funding (liquidity), the impact of restricted access to future sources of deposits (funding), the impact of providing a defined benefit pension scheme to employees (pension) and the need to withstand severe unexpected losses (capital). In addition the Group may face changes in values of assets and liabilities as a result of movements in market factors such as interest rates, foreign exchange rates, volatility and credit spreads which may give rise to losses (market risks). Balance sheet risks are subject to rules and guidance (Prudential Regulation) and these are subject to a high level of change. There is a risk of failing to understand and comply with relevant rules or inadequate change management.	• Liquidity is managed in accordance with standards that are approved by the Board and supported by annual Funding and Contingency Funding Plans. • Liquidity is managed on a daily basis, ensuring normal daily cash requirements are met and adequate sources of liquidity are available to support unforeseen cash outflows. • The Group completes a formal annual assessment of Liquidity and Capital requirements and these are shared with the PRA. These assessments include analysis of key risks with consideration of stress scenarios and inform the setting of risk appetite. • Capital is forecast and monitored on a monthly basis by Treasury overseen by the Asset and Liability Committee (ALCO). • The Group has a designated Prudential Risk team who independently monitor, oversee and challenge Balance Sheet risks. • The Group is undertaking a review of the manner in which pension benefits are provided as part of the total reward for employees.
Regulatory and Compliance Risk consists of regulatory strategy and change risk, regulatory relationship risk and the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, industry codes of conduct and voluntary initiatives. Failure to manage these risks could result in adverse regulatory scrutiny, enforcement, censure, reputational damage and reduced customer trust and confidence.	• The Group proactively assesses the impacts of legal and regulatory developments, liaises with the various regulatory bodies and participates in industry fora. • Continued and significant senior management focus and levels of business resource are directed towards maintaining full regulatory compliance and this is considered when setting Risk Appetite. • The Executive Risk Committee approves all material changes to regulatory policy and protocols. The Group's governing principles include the management and maintenance of regulatory policies and regulatory engagement.
Conduct Risk is defined as the risk of treating Customers unfairly and / or delivering inappropriate outcomes resulting in regulatory fines, compensation, redress costs and / or reputational damage.	• The Group has a Conduct Framework, with supporting target outcomes and operating principles. • Products are designed to meet Customer needs and expectations, with governance processes, e.g. Product Governance Forum and Fairness Committee, embedded to ensure those objectives are met. • The Board and the Risk Committee are kept informed of progress with respect to remediation of key legacy conduct issues, and receive regular updates on the implementation and effective execution of the Group Conduct Framework which captures progress made to meet specific conduct principles, including those relating to product design.

Business and financial review (continued)

Principal risks (continued)	Key mitigating actions (continued)
Operational Risk is the risk of loss resulting from inadequate or failed internal processes and systems or from external events. It includes legal risk, and operational risks associated with the execution of the strategy. Impacts from Operational Risks arise from the day to day activities of the Group, which may result in direct or indirect losses and could adversely impact the Group's financial performance and position.	• The Group has an established Operational Risk Framework to enable identification, management and mitigation of Operational Risks. • Risk categories are used to categorise and facilitate the consistent identification, assessment, mitigation, monitoring and reporting of risks and events. • Supplier relationships are categorised based on criticality of the support provided. Contingency planning focuses on alternative options and management approaches in the event of an outage with regular scenario tests performed. • Regular reviews and oversight of the Group's systems and infrastructure including the risk of cyber-attack.
Financial Crime Risk is the risk that the Group's Products and Services will be used to facilitate Financial Crime against the Group, its Customers or third parties. It encompasses the risk of failing to understand and comply with relevant laws, regulations and supervisory requirements relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes. It also includes risks associated with external or internal acts intended to defraud, misappropriate, and circumvent policy, funds, information, regulations and property.	• The Group has an established Financial Crime Framework supporting ongoing management, monitoring and mitigation of Financial Crime Risk. • The Group completes ongoing risk assessments, monitoring and reporting, with appropriate Know Your Customer procedures. • The Group operates zero tolerance for internal fraud and has a control framework in place to mitigate against this risk.
Strategic, Business and Financial Performance Risk is the risk of significant loss, loss of earnings and / or damage arising from business decisions that impact the long term interests of stakeholders or from an inability to adapt to external developments.	• The Board approves and oversees the execution of the Strategic Plan and associated strategic risk following the recommendations of the Chief Executive Officer and Executive Leadership Team. • A consolidated report outlining the triggers and exposure to strategic risk is independently prepared and presented to the Risk Committee by the Chief Risk Officer.
People Risk is the risk of not having sufficiently skilled and motivated employees who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, other employees or shareholders and could ultimately lead to Regulatory sanction.	• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. • The quality and continuity of the Group's leadership is continually reviewed and assessed including succession planning and talent management. • Management constantly review people capabilities and wellbeing to ensure that any potential people risk is mitigated. This is also reviewed at Board level. • Decision making authorities and delegations are clearly articulated and approved at least annually by the Board. • A robust and proportionate employment screening policy is applied at the point of recruitment. • A mandatory suite of compliance learning is assigned to all employees.

Business and financial review (continued)

The Group monitors the environment in which it operates to identify emerging risks that may have an impact on its operations and strategy; the Group currently considers its top emerging risks to be:

Emerging risks	Key mitigating actions
Geopolitical uncertainty - the outcome of the EU Referendum and subsequent triggering of Article 50 has created a period of economic uncertainty for the UK. Without certainty as to exit plans, there have been predictions of a potential slowdown in the economy. The announcement of a UK General Election in June 2017 and uncertainty around the potential for a second Scottish Independence referendum could also create greater uncertainty on proposed exit plans.	• The Group has implemented appropriate monitoring and oversight activities with external implications continuing to be assessed and has, where possible, established mitigating actions.
Macroeconomic environment - while the Group's customer base is, and is expected to remain, predominantly UK based, its business will be subject to inherent risks arising from macroeconomic conditions in the UK. The impact of the sustained low interest rate environment following reduction in the BoE base rate places increased pressure on NIM. Conversely, should interest rates rise sharply there is a risk of increased default rates and credit losses.	• The Group has implemented appropriate monitoring and oversight activities with external implications continuing to be assessed and has, where possible, established mitigating actions. • The Group's credit portfolio continues to be monitored closely with appetite adjusted where appropriate and risk sensitivity analysis conducted on an ongoing basis. • Regular assessments of strategic plans are undertaken to minimise and negate, where possible, potential impacts.
Cybercrime - in a growing digital market where cybercrime continues to evolve, there is a risk that the Group is unable to maintain pace with the increased threat of cybercrime that digital expansion presents.	• The availability and resilience of our IT systems is critical to providing the levels of service desired for our customers and as such in the past year the Group has continued to focus on enhancing our cyber security controls to protect our customers and colleagues from the evolving cyber threat landscape. The Group's control environment is regularly assessed through internal and third party testing. • The Group cyber security strategy was recently updated and approved by the Board and is directed by senior leaders within our business, who ensure our capability enhancements are aligned to the current and future threats. We are members of a number of key confidential intelligence sharing forums (e.g. the Cyber Security Information Group), which provides us with the latest threat intelligence relative to the financial sector. • To support the technical security controls we have in place and as part of our Cyber Security Strategy, we are focused on three key areas which are detect and prevent cyber attacks, security of data and manage access to Group IT systems.
Regulatory capital requirements - the Basel Committee on Banking Supervision (BCBS) is consulting on changes to the standardised approaches for calculating credit risk and Operational Risk as well as assessing the requirement for a Pillar 1 floor based on the standardised approach for banks using a model based approach for regulatory capital (e.g. IRB). In addition to the above, changes are being proposed on the IRB approach to calculating credit risk, which need to be considered in the context of the Group's IRB ambitions. These proposals are still in the draft consultation phase with no specific timeline confirmed for implementation into EU law.	• The Group continually assesses the impact of the changes to prudential requirements and will continue to liaise with the appropriate regulators.

Emerging risks (continued)	Key mitigating actions (continued)
Banking reform, ring fencing and resolution - Regulatory authorities in the UK and Europe have proposed reforms to a number of aspects of banking sector regulation. While the impact remains uncertain, the evolution of these reforms and future initiatives may impact on the business, financial conditions and, ultimately, results. The majority of the Group's activities are expected to be permitted activities for the purposes of UK ring fencing requirements and, therefore, the Group does not expect to make material changes to its current legal structure or operations to address these. There is a risk, however, that whilst changes are happening within the banking industry, there may be heightened attempts to defraud customers.	• The Group has a project in place to ensure adherence to any applicable ring fencing requirements and is engaged with industry bodies to ensure that the necessary steps are taken to support customers through reinforcing the industry's existing anti-fraud communications.
MREL - The BoE has published its policy to implement the Bank Recovery and Resolution Directive (BRRD) requirement for firms to meet the Minimum Requirements for own funds and Eligible Liabilities (MREL). These rules are designed to ensure firms have sufficient loss absorbing capacity and continuity of critical functions without making recourse to public funds. MREL is set annually on a case by case basis by the BoE and the requirement for firms to meet MREL will be phased in between 2016 and 2022. The BoE has communicated the Group's interim MREL for the period to 31 December 2021. The end-state MREL from 1 January 2022 is subject to further guidance to be issued by the BoE before the end of 2020. To meet interim and end-state MREL the Group may have to issue MREL eligible instruments, potentially at a relatively higher cost. This could lead to deterioration in the Group's financial results. Amongst other factors, the cost will be influenced by the market's response to MREL and the Group's credit rating. It is uncertain what impact MREL will have on credit ratings. MREL requirements will be applied across the industry and the relative impact on the Group compared to competitors is not known, however there is a risk that it may adversely impact the Group's competitiveness.	• The Group's plan to achieve the IRB approach will improve competitive positioning, enhance risk management capabilities and also lower the intensity of RWAs and future bail-in debt requirement for MREL. • The Group's capital and funding plans include the issuance of debt that will support the Group's expectations of MREL requirements. These plans include an assessment of the costs to ensure that the financial plan is appropriately informed.
Competition - the competitive landscape continues to evolve as non-traditional players enter the market and new innovative products and services change the dynamic. There is a risk that the Group fails to maintain pace and offer the innovative banking solutions customers increasingly seek, ultimately affecting financial performance.	• The Group continually monitors the competitive landscape and considers the appropriateness of its strategy to ensure it remains relevant in a changing and increasingly digital market.
Use of data - The EU Commissions General Data Protection Regulation (GDPR) is to be introduced from 25 May 2018 meaning the Group will be subject to increased regulatory burden when processing personal customer, employee and other data in the course of its business and may be subject to increased sanctions for breach. Sanctions include fines of up to 4% of annual worldwide turnover. Changes to legislation may also inhibit the Group's ability to use data to carry out certain of its business objectives. Additionally, the Payment Services Directive 2 (PSD2), which requires to be implemented from 13 January 2018, introduces changes to the use and control of customer data. Assuming that customers provide consent, their banks will have to provide merchants, Third Party Payment Providers and Account Information Service Providers, such as aggregator sites, access to details of their bank accounts and transaction history. There is concern that this data sharing could create, at an industry level, an increased risk of customer data being misappropriated or misused.	• A project has been mobilised to implement GDPR, with the support of a third party to provide peer comparison. • The Group has mobilised a project to implement PSD2 with activities including the introduction of strong customer authentication systems and the deployment of a robust consent model by the Group to manage the sharing of confidential customer financial data.

Business and financial review (continued)

Emerging risks (continued)	Key mitigating actions (continued)
UK tax environment - The tax environment for all UK large businesses remains unsettled. A further restriction on loss utilisation, broadly to 50% of taxable profits in excess of £5m, and a cap on tax deductibility of net interest expense was announced in the 2016 autumn statement. It has been announced that these restrictions will be effective 1 April 2017, however they were not included in the version of Finance (No 2) Bill 2016-17 substantively enacted on 26 April 2017. These changes impact all large businesses, not just banks. As noted in the 2016 annual report and accounts, banks already suffer restrictions on loss utilisation; this new legislation will tighten the rules applicable to certain "pools" of losses and make technical changes to the order of certain reliefs. The final impact for the Group has yet to be determined, but is not expected to be materially detrimental.	• The Group does not expect to be in a net interest expense position, so there should be no adverse financial consequence of this new legislation but there will be a compliance burden. Compliance with other Government announcements, for example Making Tax Digital, and tax reporting of customer tax matters under the Common Reporting Standard, will increase the systems and administrative costs on many organisations, in particular those providing financial services.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

a) an indication of important events that have occurred during the six months ended 31 March 2017 and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

b) material related party transactions in the six months ended 31 March 2017 and any material changes in the related party transactions described in the last annual report of CYBG PLC.

Signed by order of the Board

David Duffy
Chief Executive Officer
15 May 2017

Independent review report to CYBG PLC

Introduction

We have been engaged by CYBG PLC to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2017 which comprises the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated balance sheet, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and the related explanatory notes 1 to 21. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to CYBG PLC a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP
Leeds
15 May 2017

1. The maintenance and integrity of the CYBG PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Interim condensed consolidated financial statements

Contents

Interim condensed consolidated income statement for the six months ended 31 March 2017

	Note	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Interest income and similar income		534	550	1,101
Interest expense and similar charges		(123)	(150)	(295)
Net interest income	3	**411**	400	806
Gains less losses on financial instruments at fair value		3	3	9
Other operating income		83	89	182
Non-interest income	4	**86**	92	191
Total operating income		**497**	492	997
Personnel expenses		(135)	(137)	(280)
Restructuring expenses		(53)	-	(45)
Depreciation and amortisation expense		(42)	(41)	(88)
Other operating and administrative expenses		(195)	(225)	(468)
Total operating and administrative expenses before impairment losses	5	**(425)**	(403)	(881)
Operating profit before impairment losses		**72**	89	116
Impairment losses on credit exposures		(26)	(31)	(39)
Profit on ordinary activities before tax		**46**	58	77
Tax expense	6	(16)	(22)	(241)
Profit/(loss) for the period		**30**	36	(164)
Profit/(loss) attributable to ordinary shareholders		12	6	(206)
Profit attributable to other equity holders		18	30	42
Profit/(loss) for the period attributable to equity holders		**30**	36	(164)
Basic earnings/(loss) per share (pence)	7	**1.7**	1.4	(22.5)
Diluted earnings/(loss) per share (pence)	7	**1.7**	1.4	(22.5)

All material items dealt with in arriving at the profit before tax for the period relate to continuing activities.

The notes on pages 34 to 59 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income for the six months ended 31 March 2017

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Profit/(loss) for the period	30	36	(164)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the period	(40)	34	105
Transfers to the income statement	(1)	(1)	(1)
Taxation thereon	9	(8)	(25)
	(32)	25	79
Change in available for sale reserve			
Gains during the period	5	3	29
Transfers to the income statement	-	(1)	(8)
Taxation thereon	(1)	(1)	(6)
	4	1	15
Total items that may be reclassified to the income statement	(28)	26	94
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit pension plans	61	58	(179)
Taxation thereon	(13)	(15)	43
	48	43	(136)
Change in asset revaluation reserve			
Transfer to retained profits	-	(1)	-
Taxation thereon	-	-	-
	-	(1)	-
Total items that will not be reclassified to the income statement	48	42	(136)
Other comprehensive income/(losses) net of tax	20	68	(42)
Total comprehensive income/(losses) for the period net of tax	50	104	(206)
Total comprehensive income/(losses) attributable to ordinary shareholders	32	74	(248)
Total comprehensive income attributable to other equity holders	18	30	42
Total comprehensive income/(losses) attributable to equity holders	50	104	(206)

The notes on pages 34 to 59 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated balance sheet
as at 31 March 2017

	Note	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Assets			
Cash and balances with central banks		5,422	5,955
Due from other banks		1,172	952
Financial assets available for sale		2,029	1,731
Other financial assets at fair value	9	570	750
Derivative financial instruments	10	356	585
Loans and advances to customers	11	29,914	29,202
Due from customers on acceptances		4	4
Current tax assets		2	2
Property, plant and equipment		91	99
Investment properties		19	22
Intangible assets		298	256
Deferred tax assets	12	162	183
Other assets		189	188
Total assets		40,228	39,929
Liabilities			
Due to other banks	13	2,980	1,309
Other financial liabilities at fair value	9	32	48
Derivative financial instruments	10	411	598
Due to customers		26,383	27,090
Liabilities on acceptances		4	4
Provisions for liabilities and charges	14	639	852
Debt securities in issue	15	4,180	4,501
Retirement benefit obligations	16	31	79
Deferred tax liabilities	12	24	27
Other liabilities		2,295	2,210
Total liabilities		36,979	36,718
Equity			
Share capital	17	88	88
Other equity instruments	18	450	450
Capital reorganisation reserve	18	(839)	(839)
Merger reserve	18	633	633
Other reserves	18	74	100
Retained earnings	18	2,843	2,779
Total equity		3,249	3,211
Total liabilities and equity		40,228	39,929

The notes on pages 34 to 59 form an integral part of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors on 15 May 2017 and were signed on its behalf by:

David Duffy

Chief Executive Officer

Ian Smith

Chief Financial Officer

Company name: CYBG PLC, Company number: 09595911

Interim condensed consolidated statement of changes in equity
for the six months ended 31 March 2017

	Note	Share capital £m	Share premium account £m	Capital reorganisation reserve £m	Merger reserve £m	Other equity instruments £m	Equity-based compensation reserve £m	Asset revaluation reserve £m	Available for sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 October 2015 (audited)		223	670	-	-	450	3	2	12	(13)	2,096	3,443
Profit for the period		-	-	-	-	-	-	-	-	-	36	36
Other comprehensive income/(losses)		-	-	-	-	-	-	(1)	1	25	43	68
Total comprehensive income/(losses) for the period		-	-	-	-	-	-	(1)	1	25	79	104
AT1 distribution paid (net of tax relief)		-	-	-	-	-	-	-	-	-	(18)	(18)
Insertion of new parent company		(223)	(670)	893	-	-	-	-	-	-	-	-
Share for share exchange		1,099	-	(1,732)	633	-	-	-	-	-	-	-
Share capital reduction		(1,011)	-	-	-	-	-	-	-	-	1,011	-
Capital note repurchase (net of tax relief)		-	-	-	-	(450)	-	-	-	-	(5)	(455)
Capital note issued		-	-	-	-	450	-	-	-	-	-	450
Transfer from equity-based compensation reserve		-	-	-	-	-	(4)	-	-	-	4	-
Equity-based compensation expensed		-	-	-	-	-	5	-	-	-	-	5
Equity-based compensation settled		-	-	-	-	-	2	-	-	-	-	2
As at 31 March 2016 (unaudited)		88	-	(839)	633	450	6	1	13	12	3,167	3,531
Loss for the period		-	-	-	-	-	-	-	-	-	(200)	(200)
Other comprehensive income/(losses)		-	-	-	-	-	-	1	14	54	(179)	(110)
Total comprehensive income/(losses) for the period		-	-	-	-	-	-	1	14	54	(379)	(310)
AT1 distribution paid (net of tax relief)		-	-	-	-	-	-	-	-	-	(10)	(10)
Transfer from asset revaluation reserve		-	-	-	-	-	-	(1)	-	-	1	-
As at 30 September 2016 (audited) [(1)]	17,18	**88**	**-**	**(839)**	**633**	**450**	**6**	**1**	**27**	**66**	**2,779**	**3,211**
Profit for the period		-	-	-	-	-	-	-	-	-	30	30
Other comprehensive income/(losses)		-	-	-	-	-	-	-	4	(32)	48	20
Total comprehensive income/(losses) for the period		-	-	-	-	-	-	-	4	(32)	78	50
AT1 distribution paid (net of tax relief)		-	-	-	-	-	-	-	-	-	(15)	(15)
Transfer from equity-based compensation reserve		-	-	-	-	-	(1)	-	-	-	1	-
Equity-based compensation expensed		-	-	-	-	-	3	-	-	-	-	3
As at 31 March 2017 (unaudited)	17,18	**88**	**-**	**(839)**	**633**	**450**	**8**	**1**	**31**	**34**	**2,843**	**3,249**

(1) The closing balances as at 30 September 2016 have been audited; the movements in the individual six months periods to 31 March and 30 September 2016 are unaudited.

The notes on pages 34 to 59 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows for the six months ended 31 March 2017

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Operating activities			
Profit on ordinary activities before tax	**46**	58	77
Adjustments for:			
Non-cash or non-operating items included in profit before tax	**(340)**	(327)	(643)
Changes in operating assets	**(614)**	(1,990)	(2,285)
Changes in operating liabilities	**744**	343	1,587
Interest received	**520**	534	1,101
Interest paid	**(134)**	(98)	(200)
Tax received/(paid) – group relief	**-**	5	4
Net cash provided/(used in) by operating activities	**222**	(1,475)	(359)
Cash flows from investing activities			
Interest received	**5**	7	11
Proceeds from sale or maturity of investments	**20**	101	101
Proceeds from sale of tangible fixed assets [(1)]	**6**	8	17
Purchase of tangible fixed assets [(1)]	**(8)**	(7)	(22)
Purchase of investments	**(350)**	(100)	(357)
Proceeds from sale of available for sale investments	**-**	-	56
Purchase and development of intangible assets	**(72)**	(49)	(99)
Net cash used in investing activities	**(399)**	(40)	(293)
Cash flows from financing activities			
Interest received	**-**	1	1
Interest paid	**(44)**	(51)	(98)
Proceeds from other equity instruments issued	**-**	450	450
Repurchase of other equity instruments	**-**	(457)	(457)
Repurchase of subordinated debt	**-**	(474)	(474)
Redemption and principal repayment on residential mortgage backed securities and covered bonds	**(297)**	(435)	(1,029)
Issuance of residential mortgage backed securities and covered bonds	**-**	-	750
Issuance of subordinated debt	**-**	475	475
Net decrease in amounts due from related entities	**-**	786	786
Net decrease in amounts due to related entities	**-**	(115)	(106)
Equity based compensation	**-**	-	2
AT1 distributions	**(18)**	(23)	(35)
Net cash (used in)/provided by financing activities	**(359)**	157	265
Net decrease in cash and cash equivalents	**(536)**	(1,358)	(387)
Cash and cash equivalents at the beginning of the period	**5,950**	6,337	6,337
Cash and cash equivalents at the end of the period [(2)]	**5,414**	4,979	5,950

(1) Tangible fixed assets include property, plant and equipment, investment properties and property inventory
(2) Cash and cash equivalents is cash and balances with central banks less mandatory deposits plus cash equivalents within other assets, less due to other banks, and other liabilities.

The notes on pages 34 to 59 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

1. Basis of preparation and accounting policies

These interim condensed consolidated financial statements for the six months ended 31 March 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the FCA and IAS 34 "Interim Financial Reporting" as adopted by the European Union ("EU"). They do not include all the information required by International Financial Reporting Standards ("IFRS") in full annual financial statements and should be read in conjunction with the annual report and accounts for the year ended 30 September 2016, which were prepared in accordance with IFRS as adopted by the EU. Copies of the 2016 annual report and accounts are available from the Group's website - http://www.cybg.com/annual-results-2016/

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of Section 434 of the Companies Act 2006 ("the Act"). Statutory accounts for the year ended 30 September 2016 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and they did not contain any statements under Section 498 of the Act.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business and financial review section of these interim condensed consolidated financial statements. This should be read in conjunction with the strategic report which can be found in the annual report and accounts for the year ended 30 September 2016. In addition, the risk report contained in the 2016 annual report includes the Group's risk management objectives. The Group's objectives, policies and processes for managing capital can be found in the business and financial review and supplementary risk management disclosures sections of this report.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing these interim condensed consolidated financial statements.

Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with, and are a continuation of, those policies followed in the preparation of the CYBG PLC annual report and accounts for the year ended 30 September 2016. Comparatives are presented on a basis that conforms to the current presentation.

Accounting developments

The Group has adopted the following IASB pronouncements in the current financial period. These do not have a material impact on the interim condensed consolidated financial statements:

- Amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation', issued May 2014 and effective for financial years beginning on or after 1 January 2016. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation being the expected pattern of consumption of the future economic benefits of an asset. This amendment provides clarification that the use of certain revenue based methods to calculate depreciation is not appropriate.
- 'Annual Improvements to IFRS Standards 2012-2014 Cycle', issued September 2014 and effective for financial years beginning on or after 1 January 2016. The IASB has made amendments to the following standards that are relevant to the Group: IFRS 5: 'Non-current Assets Held for Sale and Discontinued Operations'; IFRS 7: 'Financial Instruments: Disclosures'; IAS 19: 'Employee Benefits'; and IAS 34: 'Interim Financial Reporting'.
- Amendments to IAS 1: 'Disclosure Initiative', issued December 2014 and effective for financial years beginning on or after 1 January 2016. This includes a narrow scope amendment providing clarification to existing IAS 1: 'Presentation of Financial Statements' requirements.

An overview of pronouncements that will be relevant to the Group in future periods is provided on pages 213 to 216 of CYBG's annual report and accounts for the year ended 30 September 2016. Separate updates on the Group's implementation of IFRS 9, IFRS 15 and IFRS 16 are also provided below.

During the period the IASB has issued the following further pronouncements relevant to the Group. The impact of these pronouncements is being assessed by the Group.

- 'Annual Improvements to IFRS Standards 2014-2016 Cycle', issued December 2016 and effective for financial years beginning on or after 1 January 2017 or 1 January 2018. The IASB has made amendments to the following standards: IFRS 12: 'Disclosure of Interests in Other Entities' (clarification of the scope of the standard – effective 1 January 2017, and IAS 28: 'Investments in Associates and Joint Ventures' (measuring an associate or joint venture at fair value – effective 1 January 2018).

Notes to the interim condensed consolidated financial statements (continued)

1. Basis of preparation and accounting policies (continued)

Accounting developments (continued)

- IFRIC interpretation 22: 'Foreign Currency Transactions and Advance Consideration', issued December 2016 and effective for financial years beginning on or after 1 January 2018. The new interpretation provides requirements on which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.
- Amendments to IAS 40: 'Transfers of Investment Property', issued December 2016 and effective for financial years beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property.

Update on the implementation of IFRS 9: 'Financial Instruments'

IFRS 9 was endorsed for adoption in the EU on 22 November 2016 and will be formally implemented by the Group with effect from 1 October 2018 in line with the Standard's requirements to apply for annual periods beginning on or after 1 January 2018.

The Group's current view on the three phases of IFRS 9 (classification and measurement, impairment and hedging) was provided on pages 214 to 215 of the Group's annual report and accounts for the year ended 30 September 2016. The most significant impact of IFRS 9 on the Group's performance will be from the impairment phase and results from the move to an "expected credit loss" (ECL) methodology from an "incurred" loss methodology.

As highlighted in the 2016 annual report, this change in methodology requires a series of complex judgements; the Group continues to assess and develop its thinking around these and make refinements where required. This is particularly relevant given the Group's IRB Programme which runs in parallel to IFRS 9 and will provide the underlying model methodology that will ultimately be used for IFRS 9 purposes. The IRB models will require an element of modification in order for them to be IFRS 9 compliant, such as the incorporation of forward looking information using reasonable and supportable forecasts of future economic conditions, the need to consider multiple economic scenarios (which will consider amongst other things the Group's current planning processes and stress testing scenarios), and the development of a lifetime ECL.

In addition to developing an impairment approach and methodology that is compliant with the requirements of IFRS 9, the Group has also taken account of the recent guidance on credit risk and ECLs issued by the European Banking Authority and the BCBS, and other recent publications such as the Global Public Policy Committee (GPPC) paper on "The implementation of IFRS 9 impairment requirements by banks". The Group also notes the recent BCBS Standards on the regulatory treatment of accounting provisions and will continue to monitor developments on how these will be applied by the Group's regulators.

The Group continues to focus on and develop the necessary frameworks, structures and models required to support a high quality IFRS 9 implementation, and ensure that the new IFRS 9 approach is fully embedded into the Group's processes.

The Group's IFRS 9 implementation programme continues to work towards the completion of all decisions, judgements and models in time to commence an end-to-end parallel run during the year beginning on 1 October 2017. A further update on the Group's IFRS 9 implementation will be provided in the annual report and accounts for the year to 30 September 2017.

Update on the implementation of IFRS 15: 'Revenue from Contracts with Customers' and IFRS 16: 'Leases'

The Group is reviewing the requirements of the new Standards to ensure that the Group's methodology and approach to the key impacts and challenges introduced by the Standards result in the delivery of a high quality implementation, while recognising evolving industry practice.

IFRS 15
IFRS 15 was issued in May 2014 and is effective for financial years beginning on or after 1 January 2018, meaning that it will be mandatorily adopted by the Group with effect from 1 October 2018.

The work performed to date has included views on the new estimates and judgements required by the Standard and includes, for example, items such as the estimation of variable consideration and determining when performance obligations are met, and changes to systems and processes that may be required to capture and maintain additional data on revenues for measurement and disclosure purposes.

IFRS 16
IFRS 16 was issued in January 2016 and is effective for financial years beginning on or after 1 January 2019, meaning that it will be mandatorily adopted by the Group with effect from 1 October 2019.

Notes to the interim condensed consolidated financial statements (continued)

1. Basis of preparation and accounting policies (continued)

Update on the implementation of IFRS 15: 'Revenue from Contracts with Customers' and IFRS 16: 'Leases' (continued)

The work performed to date has included initial views on the new estimates and judgements required by the Standard. In addition, whilst the Group has comprehensive data on property lease arrangements (which will be where the majority of IFRS 16 changes impact the Group), new systems and processes may be required to identify, capture and maintain lease data.

Further updates on the Group's IFRS 15 & 16 implementation progress will be provided in the annual report and accounts for the year to 30 September 2017.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimated.

There have been no significant changes to the bases upon which estimates have been determined, compared with those applied at 30 September 2016.

Presentation of risk disclosures

Certain disclosures outlined in IFRS 7 'Financial Instruments: Disclosure' concerning the nature and extent of risks relating to financial instruments have been included within the supplementary risk management disclosures section of this report.

2. Segment information

The Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the Group's Chief Operating Decision Maker, the Chief Executive Officer.

The Group's business is organised into two principal operating segments: SME Banking and Retail Banking. The Central Functions of the Group consist of Finance, Risk Management, Chief Operating Office, Corporate Development and Stakeholder Engagement, Legal and Governance, Products, Propositions & Marketing, Internal Audit and Human Resources.

'Other' reflects elements of income and expenditure that are not recharged to the Group's two principal operating segments such as conduct related provisions, impairment of intangibles and restructuring costs.

SME Banking

The Group's established regional SME franchise offers a full range of banking products and services to meet business customers' banking needs across its small business, commercial, corporate and specialist and acquisition finance segments.

The Group offers a full range of lending products and services across a portfolio consisting of term lending, overdrafts and working capital solutions through its SME franchise:

- Term lending: the Group offers a wide variety of term loans, both secured and unsecured, and offers customers a range of repayment and interest rate options. The majority of the Group's business term lending is LIBOR based.
- Overdrafts: business overdrafts are the primary type of revolving variable rate credit facility offered by the Group to business customers.
- Invoice finance: the Group advances funds against the customer's trade receivables.
- Asset finance: these products provide a method of financing capital equipment purchases.
- International trade services: these products facilitate transactions between a buyer and seller located in different countries. The Group offers import loans, export loans, documentary collections and currency guarantees, together with letters of credit for securing trade.
- BCAs: the Group provides business customers day to day banking, current account facilities (including debit cards, cheque books, regular statements, direct debits and standing orders), and online banking.

Notes to the interim condensed consolidated financial statements (continued)

2. Segment information (continued)

Retail Banking

The Group has a comprehensive regional and national retail banking product proposition with a personal deposit portfolio comprising of personal current accounts (PCA), savings accounts and term deposits. The Group's retail lending portfolio comprises of mortgages, personal loans, credit cards and overdrafts:

- PCA: a stable source of funding provided under the Clydesdale Bank, Yorkshire Bank and B brands.
- Savings accounts: the Group offers a variety of savings accounts that pay a variable rate of interest. It also offers cash ISAs that provide depositors tax free returns.
- Term deposits : offer a fixed interest rate for a fixed term.
- Mortgages: the Group provides mortgage loans on a capital repayment basis, where the loan is required to be repaid during its life, and on an interest-only basis, where the customer pays interest during the term of the mortgage loan with the principal balance required to be repaid in full at maturity. The Group offers both owner-occupied mortgage loans (pursuant to which the borrower is the owner and occupier of the mortgaged property) and buy-to-let (BTL) loans (pursuant to which the borrower intends to let the mortgaged property).
- Personal loans: the Group provides unsecured personal loans through its branch network and through its digital and telephone distribution channels.
- Credit cards: the Group currently offers three credit card products, Private MasterCard, Business MasterCard and Gold MasterCard.
- Overdrafts: the Group provides overdraft lending across a variety of PCA products, subject to the account holder's status.

Major customers

Revenues from no one single customer amount to greater than 10% of the Group's revenues.

Geographical areas

The Group has no operations outside the UK and therefore no secondary geographical area information is presented.

Operating segments 6 months ended 31 March 2017 (unaudited)	SME Banking £m	Retail Banking £m	Central Functions £m	Other £m	Total £m
Net interest income	**146**	**238**	**27**	**-**	**411**
Non-interest income	**38**	**42**	**6**	**-**	**86**
Operating income	**184**	**280**	**33**	**-**	**497**
Operating and administrative expenses	**(27)**	**(57)**	**(264)**	**(77)**	**(425)**
Impairment losses on credit exposures (1)	**(15)**	**(11)**	**-**	**-**	**(26)**
Segment operating profit/(loss) before tax	**142**	**212**	**(231)**	**(77)**	**46**
Average interest-earning assets	**10,294(2)**	**19,952**	**6,717**	**-**	**36,963**

Operating segments 6 months ended 31 March 2016 (unaudited)	SME Banking £m	Retail Banking £m	Central Functions £m	Other £m	Total £m
Net interest income	139	234	27	-	400
Non-interest income	39	42	10	1	92
Operating income	178	276	37	1	492
Operating and administrative expenses	(36)	(59)	(258)	(50)	(403)
Impairment losses on credit exposures (1)	(20)	(11)	-	-	(31)
Segment operating profit/(loss) before tax	122	206	(221)	(49)	58
Average interest-earning assets	10,430(2)	18,653	6,911	-	35,994

2. Segment information (continued)

Operating segments 12 months ended 30 September 2016 (audited)	SME Banking £m	Retail Banking £m	Central Functions £m	Other £m	Total £m
Net interest income	285	472	49	-	806
Non-interest income	77	77	29	8	191
Operating income	362	549	78	8	997
Operating and administrative expenses	(70)	(119)	(540)	(152)	(881)
Impairment losses on credit exposures [1]	(30)	(9)	-	-	(39)
Segment operating profit/(loss) before tax	262	421	(462)	(144)	77
Average interest-earning assets	10,406[2]	19,049	6,802	-	36,257

[1] The impairment losses on credit exposures of £11m (31 March 2016: £11m and 30 September 2016: £9m) for Retail Banking includes losses on certain retail products attributable to SME (private banking) customers

[2] Average interest earning assets for SME Banking include £3.2bn (31 March 2016: £3.3bn and 30 September 2016: £3.3bn) of mortgages originated by private banking.

3. Net interest income

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Interest income and similar income			
Loans and advances to other banks	**5**	12	22
Financial assets available for sale	**5**	5	11
Loans and advances to customers	**511**	516	1,037
Financial assets at fair value through profit or loss	**10**	15	27
Due from related entities	**-**	1	1
Other interest income	**3**	1	3
Total interest income and similar income	**534**	550	1,101
Less: interest expense and similar charges			
Due to other banks	**6**	2	8
Financial liabilities at fair value through profit or loss	**-**	-	1
Due to customers	**73**	97	188
Debt securities in issue	**44**	40	87
Due to related entities	**-**	11	11
Total interest expense and similar charges	**123**	150	295
Net interest income	**411**	400	806

4. Non-interest income

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Gains less losses on financial instruments at fair value			
Interest rate derivatives	26	6	3
Other assets and liabilities at fair value	(21)	(2)	7
Ineffectiveness arising from fair value hedges	(2)	(1)	-
Ineffectiveness arising from cash flow hedges	-	-	(1)
	3	3	9
Other operating income			
Fees and commission	73	77	151
Margin on foreign exchange derivative brokerage	9	10	19
Gains on disposal of available for sale financial assets	-	-	8
Net fair value movement on investment properties	-	-	(1)
Other income	1	2	5
	83	89	182
Total non-interest income	86	92	191

Gains less losses on financial instruments at fair value incorporate valuation movements for certain financial assets which are designated at inception as fair value through profit or loss. These assets are predominantly fixed interest rate loans and movements in fair value are recognised in the income statement as part of non-interest income. The fair value of these loans is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses. The valuation technique used is reflective of current market practice. A credit risk gain on fair value loans and associated liabilities of £4m, offset by a fair value loss of £25m, has been recognised in the current period (31 March 2016: £5m and £7m, 30 September 2016: £11m and £4m).

Notes to the interim condensed consolidated financial statements (continued)

5. Operating and administrative expenses

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Personnel expenses			
Salaries, wages, non-cash benefits and social security costs	93	101	211
Defined contribution pension expense	8	9	20
Defined benefit pension expense	20	15	28
Equity based compensation	3	5	5
Other personnel expenses	11	7	16
	135	137	280
Restructuring expenses			
Restructuring expenses (note 14)	53	-	45
Depreciation and amortisation expense			
Depreciation of property, plant and equipment	12	13	25
Amortisation of intangible assets	30	28	63
	42	41	88
Other operating and administrative expenses			
Operating lease charges	16	15	30
Other occupancy charges	17	19	39
Related entity charges (note 8)	-	4	5
Impairment losses on software	-	-	45
PPI redress expense (note 14)	15	44	44
Other conduct expenses (note 14)	4	2	7
Separation costs	5	4	11
Other operating and administrative expenses	138	137	287
	195	225	468
Total operating and administrative expenses	425	403	881

Notes to the interim condensed consolidated financial statements (continued)

6. Taxation

Current tax	**6 months to 31 Mar 2017 (unaudited) £m**	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
UK corporation tax			
Current period	**4**	9	12
Adjustment in respect of prior periods	**-**	-	(3)
	4	9	9
Deferred tax			
Current period	**8**	11	236
Adjustment in respect of prior periods	**4**	2	(4)
	12	13	232
Tax expense for the period	**16**	22	241

The tax assessed for the period differs from that arising from applying the expected rate of corporation tax in the UK (19.5%). A reconciliation from the expense implied by the expected rate to the actual tax expense is as follows:

	6 months to 31 Mar 2017 (unaudited) £m	6 months to 31 Mar 2016 (unaudited) £m	12 months to 30 Sep 2016 (audited) £m
Profit on ordinary activities before tax	**46**	58	77
Tax expense based on the expected rate of corporation tax in the UK of 19.5% (March and September 2016: 20%)	**9**	12	15
Effects of:			
Impact of rate changes	**7**	5	(11)
Disallowable expenses	**4**	5	8
Conduct indemnity adjustment	**(5)**	(4)	(1)
Deferred tax assets (recognised)/written off	**(3)**	2	237
Adjustments in respect of prior periods	**4**	2	(7)
Tax expense for the period	**16**	22	241

Finance Act (No2) 2015 introduced the Bank Surcharge for the banking entity within the Group from 1 January 2016, being an 8% charge on taxable profits above £25m before the offset of brought forward losses or group relief. There are no such taxable profits in the underlying banking entity and accordingly no surcharge liability arises.

The 'Conduct indemnity adjustment' represents the receipt from the Group's former parent less refunds attributable in accordance with the indemnity agreement (note 14).

Further detail on the assumptions underpinning the Group's deferred tax position, including amounts now recognised, is provided in note 12.

7. Earnings per share

The Group presents basic and diluted earnings/(loss) per share (EPS) data in relation to the ordinary shares of CYBG PLC.

	31 Mar 2017 (unaudited) £m	31 Mar 2016 (unaudited) £m	30 Sep 2016 (audited) £m
Profit/(loss) attributable to ordinary shareholders	**12**	6	(206)
Tax relief on AT1 distribution attributable to ordinary equity holders	**3**	5	7
Tax relief on loss on repurchase of CYBI AT1 issued to NAB	**-**	1	1
Profit/(loss) attributable to ordinary equity holders for the purposes of basic and diluted EPS	**15**	12	(198)

	31 Mar 2017 (unaudited) Number of shares (million)	31 Mar 2016 (unaudited) Number of shares (million)	30 Sep 2016 (audited) Number of shares (million)
Weighted-average number of ordinary shares in issue			
- Basic	**882**	880	880
- Diluted [(1)]	**883**	880	880
Basic earnings /(loss) per share (pence)	**1.7**	1.4	(22.5)
Diluted earnings/(loss) per share (pence) [(1)]	**1.7**	1.4	(22.5)

(1) The Group recognised a basic loss per share in the year ended 30 September 2016 rather than a basic EPS. The dilutive effect of the potentially dilutive share based payment awards in that year was excluded from the calculation on the basis that it would have reduced the loss per share.

8. Related party transactions

Transactions with pension schemes

The Group incurred costs in relation to pension scheme administration. These costs, which amounted to £0.2m (31 March 2016: £0.3m, 30 September 2016: £0.5m), were charged to the Group sponsored scheme. The Group has deposits of £14.7m (30 September 2016: £31.7m) at the period end placed by the Scheme at market rates.

Pension contributions of £10m (period to 31 March 2016: £41m, year to 30 September 2016: £84m) were made during the period to the Yorkshire and Clydesdale Bank Pension Scheme sponsored by the Group (note 16).

Other related party transactions

Prior to its listing on the London Stock Exchange on 8 February 2016, the Group was owned by NAB and was party to a range of services and arrangements with NAB. In the period to 31 March 2016 the Group recognised a gain of £1m on the repurchase of subordinated debt, and incurred expenses of £4m (£5m in the year to 30 Sept 2016) on services provided by NAB.

As NAB no longer controls, jointly controls or has significant influence over the Company or its subsidiaries since 8 February 2016, transactions with NAB are no longer treated as related party transactions.

9. Other financial assets and liabilities at fair value

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Other financial assets at fair value through profit or loss		
Loans and advances	570	750
Other financial liabilities at fair value through profit or loss		
Due to customers – term deposits	32	48

Loans and advances

Included in other financial assets at fair value is an historical portfolio of loans (sales ceased in 2012). Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £570m (30 September 2016: £750m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £14m (30 September 2016: £24m) and the change for the current period is a decrease of £10m (30 September 2016: decrease of £14m).

The loans are classified as Level 3 in the fair value hierarchy (note 20).

Due to customers - term deposits

Included in other financial liabilities at fair value are fixed rate deposits, the interest rate risk on which is hedged using interest rate derivative contracts. The deposits are recorded at fair value to avoid an accounting mismatch.

The change in fair value attributable to changes in the Group credit risk is £Nil (30 September 2016: £Nil). The Group is contractually obligated to pay £2m (30 September 2016: £3m) less than the carrying amount at maturity to the deposit holder.

The term deposits are classified as Level 3 in the fair value hierarchy (note 20).

The derivatives related to the assets and liabilities at fair value through profit or loss do not meet the requirements for hedge accounting and are classified as held for trading derivatives (note 10).

10. Derivative financial instruments

The Group uses derivatives for risk mitigation purposes and does not have a trading book. However, derivatives that do not meet the hedging criteria within IAS 39, or those for which hedge accounting is not desirable, are accounted for as held for trading (despite being used for risk mitigation). The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading.

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	254	351
Designated as held for trading	102	234
	356	585
Fair value of derivative financial liabilities		
Designated as hedging instruments	224	257
Designated as held for trading	187	341
	411	598

10. Derivative financial instruments (continued)

Cash collateral on derivatives placed with banks totalled £327m as at 31 March 2017 (30 September 2016: £337m). Cash collateral received on derivatives totalled £34m as at 31 March 2017 (30 September 2016: £57m). These amounts are included within due from other banks and due to other banks respectively.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived, and does not represent the principal amounts at risk relating to these contracts.

Total derivative contracts as at 31 March 2017 (unaudited)	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	14,103	86	79
Cross currency swaps	722	76	-
Forward foreign exchange	3	-	-
	14,828	162	79
Fair value hedges			
Interest rate swaps	1,452	92	145
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot and forward foreign exchange	2,390	58	58
Cross currency swaps	150	12	12
Options	166	3	3
	2,706	73	73
Interest rate related contracts			
Swaps	1,073	23	105
Swaptions	45	-	1
Options	492	1	3
	1,610	24	109
Commodity related contracts	119	5	5
Total derivative contracts	20,715	356	411

10. Derivative financial instruments (continued)

Total derivative contracts as at 30 September 2016 (audited)	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	15,526	154	79
Cross currency swaps	760	88	-
Forward foreign exchange	5	-	-
	16,291	242	79
Fair value hedges			
Interest rate swaps	1,452	109	178
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot and forward foreign exchange	2,202	84	78
Cross currency swaps	150	11	11
Options	216	5	5
	2,568	100	94
Interest rate related contracts			
Swaps	1,512	123	233
Swaptions	47	-	1
Options	569	2	4
	2,128	125	238
Commodity related contracts	127	9	9
Total derivative contracts	22,566	585	598

Derivatives traded to manage the Group's interest rate exposure on a net portfolio basis are accounted for as cash flow hedges. Derivatives traded to manage interest rate risk on certain fixed rate assets, such as UK Government Gilts, are accounted for as fair value hedges. In addition, the Group cash flow hedges its foreign currency exposure on material, highly probable non-GBP denominated transactions.

The Group hedging positions also include those designated as foreign currency and interest rate hedges of debt issued from the Group's securitisation and covered bond programmes respectively. As such certain derivative financial assets and liabilities have been booked in consolidated special purpose entities.

Notes to the interim condensed consolidated financial statements (continued)

11. Loans and advances to customers

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Overdrafts	1,572	1,536
Credit cards	393	400
Lease finance	538	515
Mortgages	22,376	21,836
Other term lending – SME	4,526	4,393
Other term lending – retail	681	690
Other lending	34	26
Gross loans and advances to customers	30,120	29,396
Accrued interest receivable	75	76
Unearned income	(26)	(26)
Deferred and unamortised fee income	(32)	(29)
Impairment provisions on credit exposures	(223)	(215)
	29,914	29,202

The Group has transferred £4,740m (30 September 2016: £5,435m) of mortgages through securitisation arrangements that do not qualify for derecognition from the balance sheet. The mortgages do not qualify for derecognition because the Group remains exposed to the risks and rewards of ownership on an ongoing basis. Prior to any relevant hedging arrangements, the Group continues to be exposed primarily to the credit, liquidity and interest rate risk of the mortgages. The Group is also exposed to the residual rewards of the mortgages as a result of its ability to benefit from the future performance of the mortgages through the receipt of deferred consideration. The carrying amount of the associated liabilities is £2,904m (30 September 2016: £3,208m).

Included within loans and advances to customers are £995m (30 September 2016: £1,149m) of mortgages assigned to a bankruptcy remote special purpose entity, Clydesdale Covered Bonds No. 2 LLP. These loans provide security for covered bond issuances made by the Group. These transactions do not qualify for derecognition from the balance sheet. At 31 March 2017 there were £766m (30 September 2016: £797m) of covered bonds in issue under the covered bond programme.

The Group also has a portfolio of fair valued business loans and advances of £570m (30 September 2016: £750m) (note 9). Combined with the above this is equivalent to total loans and advances of £30,484m (30 September 2016: £29,952m).

12. Deferred tax

The Group recognises deferred tax attributable to the following items:

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Deferred tax assets		
Capital allowances	112	127
Tax losses carried forward	37	35
Defined benefit pension scheme deficit	7	18
Employee equity based compensation	2	2
Cash flow hedge reserve	1	1
Transitional adjustment - available for sale reserve	3	-
	162	183
Deferred tax liabilities		
Cash flow hedge reserve	(12)	(21)
Gains on unlisted available for sale investments	(6)	(6)
Available for sale reserve	(6)	-
	(24)	(27)
Net deferred tax asset	138	156

At 31 March 2017, management has assessed the recoverability of deferred tax assets, and in accordance with IAS 12 recognised those whose recoverability is expected within the corporate planning horizon. The impact of this is to bring on balance sheet tax losses with a value of £3m that had previously been written off. In addition to this, historic tax losses with a tax value of £4m have been recognised as part of the prior year adjustment (note 6). There remains an unrecognised deferred tax asset of £195m (30 September 2016: £202m) representing trading losses with a gross value of £1,148m (30 September 2016: £1,186m). A deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future.

The statutory rate of UK corporation tax has been 20% since 1 April 2015. A series of reductions in that rate has been enacted by subsequent legislation, in particular to 19% from 1 April 2017 and to 17% from 1 April 2020. In accordance with IAS 12, these rates are taken into account in assessing the value at which assets are expected to be realised and liabilities settled.

From 1 April 2016, only 25% of a bank's profits can be relieved by brought forward losses. In addition to the Banking Loss Restriction the Group will also be subject to the Corporation Tax Loss Restriction from 1 April 2017, however the legislation in respect of the new restriction is not substantively enacted at the balance sheet date. Management is currently assessing the impact of the draft legislation.

13. Due to other banks

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Transaction balances with other banks	32	23
Securities sold under agreements to repurchase	1,014	1,226
Deposits from other banks	34	60
Secured loans	1,900	-
	2,980	1,309

Secured loans comprise amounts drawn under the TFS.

14. Provisions for liabilities and charges

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
PPI redress provision		
Opening balance	725	774
Charge to the income statement (note 5)	15	44
Charge covered by Conduct Indemnity	135	406
Utilised	(381)	(499)
Closing balance	494	725
Customer redress and other provisions		
Opening balance	101	214
Charge to the income statement (note 5)	4	8
Charge reimbursed under Conduct Indemnity	36	27
Utilised	(49)	(148)
Closing balance	92	101
Restructuring provision [1]		
Opening balance	26	18
Charge to the income statement (note 5)	48	39
Utilised	(21)	(31)
Closing balance	53	26
Total provisions for liabilities and charges	639	852

(1) Restructuring provision includes surplus lease space provision.

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. The most significant of the provisions held at 31 March 2017 is in relation to conduct risk related liabilities. The Group's economic exposure to the impact of historic conduct related liabilities is mitigated by the Capped Indemnity from NAB (see below).

Management has exercised significant judgement around the key assumptions that underpin the estimates and used estimation techniques to quantify them. Ongoing regulatory review and input, as well as rulings from the Financial Ombudsman Service ("FOS") over time, and the Group's internal reviews and assessments of customer complaints, will continue to impact upon the nature and extent of conduct related customer redress and associated costs for which the Group may ultimately become liable in future periods. Accordingly the total cost associated with such conduct related matters remains inherently uncertain.

PPI redress

In common with the wider UK retail banking sector, the Group continues to deal with complaints and redress issues arising out of historic sales of PPI. In the first half of the year the Group reassessed the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and concluded that a further charge of £150m was required incorporating the Group's estimate of the impact of PS17/3 issued on 2 March 2017 relating to a proposed time bar for complaints in August 2019. It also incorporated a reassessment of the costs of processing cases and the impact of experience adjustments. Only 9.7% of the charge impacts the Group's income statement (£15m) as a result of the Capped Indemnity. The total provision raised to date in respect of PPI is £1,796m (30 September 2016: £1,646m), with £494m of this remaining (30 September 2016: £725m).

To 31 March 2017, the Group has received 317,000 complaints (30 September 2016: 282,000) and has provided for 49,000 further walk in complaints (30 September 2016: 59,000).

14. Provisions for liabilities and charges (continued)

PPI redress (continued)

The Group implemented a comprehensive new PPI complaint handling process from August 2014 which involved making a number of significant changes to the PPI operations which resulted in an increase in operational and administrative costs. As reported previously, the Group is in the process of re-opening approximately 180,000 complaints and reviewing the original decision reached in light of the new PPI complaint handling processes. Over half of these complaints have been reviewed and concluded during this period.

In addition to the remediation activity described above, the Group has undertaken a past business review (PBR) of certain PPI sales, which is near completion, to determine if there was actual or potential customer detriment in the sales process leading to a risk of mis-sale and the potential for proactive redress. The review indicates a more favourable outcome than allowed for in the assumptions underpinning the provision as at 30 September 2016.

The increase in provision has taken into account all of the above factors as well as a revision in the Group's expectation of new customer initiated complaints in light of current experience with the overall provision based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. There remain risks and uncertainties in relation to these assumptions and consequently in relation to the ultimate costs of redress and related costs, including: (i) the number of PPI claims (and the extent to which this is influenced by the activity of claims management companies, the application of a time bar, Plevin, and FCA advertising); (ii) the number of those claims that ultimately will be upheld; (iii) the amount that will be paid in respect of those claims; (iv) any additional amounts that may need to be paid in respect to previously handled claims; (v) the response rates to the proactive customer contact; and (vi) the costs of administering the remediation programme.

As such, the factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential costs. In light of this, the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

14. Provisions for liabilities and charges (continued)

Customer redress and other provisions

In addition to PPI redress set out above, provision for customer redress is held in those instances where the Group expects to make payments to customers whether on an ex-gratia or compensatory basis. Provisions can arise as a result of legal or regulatory action and can incorporate the costs of skilled persons, independent reviewers, and where appropriate other elements of administration. The most significant of these relates to the Group's interest rate hedging products (IRHP) and fixed rate tailored business loans (FRTBL).

The Group has reassessed the level of provision considered necessary in light of the current and future expected claims for all of these matters and concluded that no changes to the level of provision held are required, reflecting the continued wind down of the formal programmes, which are expected to have completed by the end of the year, and the current level of complaints received.

Other provisions also include amounts in respect of a number of individually less significant conduct related matters, legal proceedings, and claims arising in the ordinary course of the Group's business. Over the course of the past six months the Group has raised further provisions of £40m for these matters, but only 9.7% of the charge impacts the Group's income statement (£4m) as a result of the Capped Indemnity. The ultimate cost to the Group of other customer redress matters is driven by a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs. The matters are at varying stages of their lifecycle and in certain circumstances, usually early in the life of a potential issue, elements of the potential exposure are contingent. These factors could result in the total cost of review and redress varying materially from the Group's estimate. The final amount required to settle the Group's potential liabilities in these matters is therefore uncertain and further provision could be required. During the period £Nil (30 September 2016: £1m) was also recognised for provisions not related to customer redress / conduct risk.

Conduct Indemnity Deed

The Company and NAB have entered into an agreement under which NAB has provided the Company with a Capped Indemnity to meet the costs of dealing with conduct matters related to products sold in the period prior to the date of the Group's demerger from NAB (the Conduct Indemnity Deed). The legacy conduct matters covered by the Capped Indemnity are referred to as Relevant Conduct Matters. The Capped Indemnity provides the Group with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

a) PPI, standalone interest rate hedging products, voluntary scope tailored business loans and fixed rate tailored business loans; and

b) Other conduct matters, subject to certain limitations and minimum financial thresholds.

Amounts payable under the Capped Indemnity include, subject to certain limitations, payments to customers to satisfy, settle or discharge a Relevant Conduct Matter and the direct costs and expenses of satisfying, settling, discharging or administering such Relevant Conduct Matter.

It has been agreed that NAB will meet 90.3% of Qualifying Conduct Costs claimed by the Company, up to the amount of the Capped Indemnity.

14. Provisions for liabilities and charges (continued)

Conduct Indemnity (continued)

Claims under the Capped Indemnity are recognised in the consolidated income statement simultaneously with the charge for Relevant Conduct Matters. The conduct expense and associated reimbursement income are presented net within Other operating and administrative expenses. A reimbursement receivable is recognised on the consolidated balance sheet within Due from Other Banks; this receivable is periodically settled by NAB. The reimbursement receivable is not offset against the provision amount on the Group's consolidated balance sheet. The provision expense and reimbursement income are disclosed above.

No reimbursement income or receivable is recognised on the consolidated balance sheet in relation to contingent liabilities for Relevant Conduct Matters. Any possible future reimbursement income linked to contingent liabilities in respect of Relevant Conduct Matters is not disclosed as a contingent asset as the amounts cannot be reliably estimated and are not virtually certain to be received.

To the extent that it is no longer probable that provisions for a Relevant Conduct Matter previously raised will be required to settle conduct obligations and a provision for a Relevant Conduct Matter is released as unutilised, the related Capped Indemnity amounts received will become repayable to NAB.

To the extent that tax relief is expected in relation to provisions for which reimbursement income is applicable, amounts may become repayable to NAB. In the consolidated financial statements, deferred tax assets are only recognised in respect of the Loss share proportion (9.7%) of unused tax losses on Relevant Conduct Matters, on the basis that the Group does not obtain the economic benefit of the future tax relief which is repayable to NAB.

The utilisation and undrawn balance of the Capped Indemnity is set out below:

	Conduct protection £m
Conduct protection provided by NAB (audited)	**1,700**
Capital injected into CYBI prior to demerger (audited) [1]	(120)
Drawn in period to 30 September 2016 (audited) [2]	(898)
Undrawn Conduct Indemnity as at 30 September 2016 (audited)	682
Drawn in the period to 31 March 2017 (unaudited)	(36)
Amount to be drawn relating to the period to 31 March 2017 (unaudited)	(135)
Balance as at 31 March 2017 (unaudited)	**511**

(1) £120m of the £670m of capital injected in CYBI on 24 September 2015 was related to the Conduct Indemnity Deed.

(2) £465m of the £898m represents the Pre-Covered provision amount.

Restructuring provision

Restructuring of the business is currently ongoing and a provision is held to cover redundancy payments, property vacation costs and associated enablement costs. In the period to 31 March 2017 £53m (year to 30 September 2016: £45m) was charged to the income statement, of which £5m (year to 30 September 2016: £6m) was charged directly to the income statement and £48m (year to 30 September 2016: £39m) was provided for in accordance with the requirements of IAS 37. £21m (year to 30 September 2016: £31m) of the total provision was utilised in the period.

Included within the restructuring provision is an amount for committed rental expense on surplus lease space consistent with the expected years' exposure on individual leases where the property is unoccupied. This element of the provision will be utilised over the remaining life of the leases or until the leases are assigned, and is measured at present values by discounting anticipated future cash flows.

Notes to the interim condensed consolidated financial statements (continued)

15. Debt securities in issue

31 March 2017 (unaudited)	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
Carrying value	477	2,904	698	4,079
Fair value hedge adjustments	-	-	68	68
Total debt securities	477	2,904	766	4,147
Accrued interest payable	3	4	26	33
	480	2,908	792	4,180

30 September 2016 (audited)	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
Carrying value	477	3,208	698	4,383
Fair value hedge adjustments	-	-	99	99
Total debt securities	477	3,208	797	4,482
Accrued interest payable	3	6	10	19
	480	3,214	807	4,501

There were no new issuances or redemptions of covered bonds or securitised debt during the period to 31 March 2017. The reduction in the securitisation carrying value is as a result of scheduled principal repayments.

16. Retirement benefit obligations

The Group operates both defined benefit and defined contribution arrangements. The Group is the sponsoring employer in one funded defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme (the 'Scheme'). The Scheme was established under trust on 30 September 2009 as the result of the merger of the Clydesdale Bank Pension Scheme and the Yorkshire Bank Pension Fund. The assets of the Scheme are held in a trustee administered fund; the trustee is responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension plans in the UK.

The Group also provides post-retirement health care under a defined benefit scheme for pensioners and their dependent relatives for which provision has been made. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members.

The following table provides a summary of the present value of the defined benefit obligation and fair value of plan assets for the Scheme:

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Active members' defined benefit obligation	**(1,228)**	(1,264)
Deferred members' defined benefit obligation	**(1,703)**	(1,776)
Pensioner and dependent members' defined benefit obligation	**(1,442)**	(1,497)
Total defined benefit obligation	**(4,373)**	(4,537)
Fair value of scheme assets	**4,345**	4,462
Net defined benefit pension liability	**(28)**	(75)
Post-retirement medical benefits obligations	**(3)**	(4)
	(31)	(79)

17. Called up share capital

Allotted, called up and fully paid	**31 Mar 2017 (unaudited) Number of Shares**	30 Sep 2016 (audited) Number of Shares	**31 Mar 2017 (unaudited) £m**	30 Sep 2016 (audited) £m
Ordinary shares				
Opening ordinary share capital	**881,531,852**	2,232,012,512	**88**	223
Share for share exchange	**-**	(1,352,697,256)	**-**	876
Share capital reduction	**-**	-	**-**	(1,011)
Issued under employee share schemes	**1,268,430**	2,216,596	**-**	-
Closing ordinary share capital	**882,800,282**	881,531,852	**88**	88

The share for share exchange in the year to 30 September 2016 arose on the Group's demerger from NAB and listing on the London Stock Exchange.

During the period 1,268,430 ordinary shares were issued under employee share schemes with a nominal value of £0.1m (30 September 2016: £0.2m).

Notes to the interim condensed consolidated financial statements (continued)

18. Total equity

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Share capital (note 17)	88	88
Other equity instruments	450	450
Capital reorganisation reserve	(839)	(839)
Merger reserve	633	633
Retained earnings	2,843	2,779
Other reserves		
Equity based compensation reserve	8	6
Asset revaluation reserve	1	1
Available for sale reserve	31	27
Cash flow hedge reserve	34	66
Total other reserves	74	100
Total equity	3,249	3,211

Other equity instruments

On 8 February 2016, the Company issued Perpetual Contingent Convertible Notes (fixed 8%) with a principal amount of £450m and an optional redemption on 8 December 2022 ('AT1 notes').

AT1 distributions of £18m were made in the current period, £15m net of tax relief (30 September 2016: £35m paid, £28m net of tax relief).

Capital reorganisation reserve

The capital reorganisation reserve was recognised on the issuance of CYBG PLC ordinary shares in exchange for the acquisition of the entire share capital of CYBI Limited ('CYBI'). The reserve reflects the difference between the consideration for the issuance of CYBG PLC shares and CYBI's share capital and share premium.

Merger reserve

A merger reserve was recognised on the issuance of CYBG PLC ordinary shares in exchange for the acquisition of the entire share capital of CYBI. The merger reserve reflects the difference between the consideration for the issuance of CYBG PLC shares and the nominal value of the shares issued.

Equity based compensation reserve

The Group's equity based compensation reserve records the value of equity-settled share based payment benefits provided to the Group's employees as part of their remuneration that has been charged through the income statement and adjusted for deferred tax.

Asset revaluation reserve

The asset revaluation reserve includes the gross revaluation increments and decrements arising from the revaluation of land and buildings.

Available for sale reserve

The available for sale reserve records the gains and losses arising from changes in the fair value of available for sale financial assets, adjusted for deferred tax.

18. Total equity (continued)

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

As at 31 March 2017, the cash flow hedge reserve was a credit of £34m (30 September 2016: £66m credit). The fair value of derivatives in cash flow hedges decreased by £40m in the period (30 September 2016: £105m increase), and a £1.4m gain (30 September 2016: £2m gain) was recycled to interest income in line with hedged item affecting profit or loss. A £0.3m loss (30 September 2016: £1m loss) was transferred to non-interest income due to ineffectiveness arising from cash flow hedges. These movements were offset by a deferred tax credit of £9m (30 September 2016: charge of £25m).

19. Contingent liabilities and commitments

The table below sets out the contractual amounts of contingent liabilities and commitments which are not recorded on the balance sheet. Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Contingent liabilities		
Guarantees and assets pledged as collateral security:		
At call	-	-
Due in less than 3 months	16	19
Due between 3 months and 1 year	41	44
Due between 1 year and 3 years	8	9
Due between 3 years and 5 years	3	3
Due after 5 years	44	48
	112	123
Other commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	8,346	7,690

Other contingent liabilities

Financial Services Compensation Scheme (FSCS)

The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits. During 2015, the FSCS levy was also invoiced to institutions for the third of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2017 for the interest on borrowings and an accrual of £6m (30 September 2016: £8m) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

Notes to the interim condensed consolidated financial statements (continued)

Other contingent liabilities (continued)

Conduct risk related matters

There continues to be significant uncertainty and thus judgement required in determining the quantum of conduct risk related liabilities, with note 14 reflecting the Group's current position in relation to redress provisions including those for PPI and IRHPs. The final amount required to settle the Group's potential liabilities for these, and other conduct related matters, is materially uncertain. Contingent liabilities include those matters where redress is likely to be paid and costs incurred but the amounts cannot currently be estimated. The financial exposure to the Group related to legacy conduct risks is mitigated by the Capped Indemnity provided by NAB (note 14). The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Legal claims

The Group is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

20. Fair value of financial instruments

(a) Fair value of financial instruments carried at amortised cost

The tables below show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values where these are not approximately equal.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for an identical financial asset or liability.
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement. The methodologies and assumptions used in the fair value estimates remain unaltered from those used at 30 September 2016.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. The difference between carrying value and fair value is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances.

	31 March 2017 (unaudited)		30 September 2016 (audited)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers	**29,914**	**30,621**	29,202	29,298
Financial liabilities				
Due to customers	**26,383**	**26,443**	27,090	27,114
Debt securities in issue	**4,180**	**4,265**	4,501	4,592

Notes to the interim condensed consolidated financial statements (continued)

20. Fair value of financial instruments (continued)

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described in note 20(a) above.

	Fair value measurement as at 31 March 2017 (unaudited)				Fair value measurement as at 30 September 2016 (audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
Derivative financial assets	-	356	-	356	-	585	-	585
Available for sale investments – listed	1,994	-	-	1,994	1,695	-	-	1,695
Available for sale investments – unlisted	-	-	29	29	-	-	29	29
Available for sale – other	-	-	6	6	-	-	7	7
Other financial assets at fair value	-	-	570	570	-	-	750	750
Total financial assets at fair value	1,994	356	605	2,955	1,695	585	786	3,066
Financial liabilities								
Derivative financial liabilities	-	411	-	411	-	598	-	598
Other financial liabilities at fair value	-	-	32	32	-	-	48	48
Total financial liabilities at fair value	-	411	32	443	-	598	48	646

There were no transfers between Level 1 and 2 in the current or prior period.

Assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Level 3 movement analysis:	Period to 31 March 2017 (unaudited)		
	Financial assets available for sale £m	Other financial assets at fair value £m	Other financial liabilities at fair value £m
Balance at the beginning of the year	36	750	(48)
Fair value gains/(losses) recognised [1]			
In profit or loss (unrealised)	-	(23)	1
In profit or loss (realised)	-	1	-
In available for sale reserve (unrealised)	-	-	-
Purchases	-	-	-
Sales	-	-	-
Settlements	(1)	(158)	15
Balance at the end of the year	35	570	(32)

(1) Net gains or losses were recorded in non-interest income, interest income or expense and impairment losses or within the Available for Sale Reserve as appropriate.

20. Fair value of financial instruments (continued)

(b) Fair value of financial instruments recognised on the balance sheet at fair value (continued)

Level 3 movement analysis:	Year to 30 September 2016 (audited)		
	Financial assets available for sale £m	Other financial assets at fair value £m	Other financial liabilities at fair value £m
Balance at the beginning of the year	15	1,097	(67)
Fair value gains/(losses) recognised [(1)]			
In profit or loss (unrealised)	-	10	2
In profit or loss (realised)	8	-	-
In available for sale reserve (unrealised)	21	-	-
Purchases	2	-	-
Sales	(8)	-	-
Settlements [(2)]	(2)	(357)	17
Balance at the end of the year	36	750	(48)

(1) Net gains or losses were recorded in non-interest income, interest income or expense and impairment losses or within the Available for Sale Reserve as appropriate.

(2) Settlements for the year ended 30 September 2016 included a realised loss of £5m relating to financial assets that are measured at fair value at the end of each reporting period. Such fair value gains or losses are included in non-interest income (note 4).

There were no transfers into or out of Level 3 in the period ended 31 March 2017 (30 September 2016: £Nil).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting period in which they occur.

Quantitative information about significant unobservable inputs in Level 3 valuations

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 31 March 2017.

	Fair value (unaudited) £m	Valuation technique	Unobservable inputs	Low range	High range
Financial assets					
Available for sale - investments - unlisted	**27**	Recent market value	Offers received	n/a	n/a
Available for sale - investments - unlisted	**2**	Discounted cash flow	Contingent litigation risk	0%	100%
Available for sale - other	**6**	Discounted cash flow	Customer attrition rate	10%	30%
Other financial assets at fair value	**570**	Discounted cash flow	Portfolio lifetime probability of default (PD)	2.4%	11.2%

The Group has £32m (30 September 2016: £48m) of financial liabilities at fair value classed as Level 3 which represent a portfolio of term deposits that are directly linked to the customer loans, which are also held at fair value and classed as Level 3. Their relationship to the fair value assets is such that should the liability be settled, the amount payable would be net of the fair value asset.

The available for sale - investments - unlisted includes the fair value of the Group's investment in VocaLink, which is based on the offer set out in the conditional agreement to acquire 92.4% of VocaLink Holdings Limited announced by MasterCard on 21 July 2016. The transaction completed on 28 April 2017 and the consideration received was aligned to the carrying value.

Notes to the interim condensed consolidated financial statements (continued)

20. Fair value of financial instruments (continued)

(b) Fair value of financial instruments recognised on the balance sheet at fair value (continued)

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements is in respect of the Group's fair value loan portfolio and the most significant inputs impacting the carrying value of the loans other than interest rates are future expectations of credit losses. If lifetime expected losses were 20% greater than predicted, the carrying value of the loans would decrease by £4m and vice versa.

The most significant input impacting the carrying value of the available for sale - other asset is the Funds Under Management Attrition rate. If this rate was 30% the carrying value would reduce by £3m; if it was 10% the carrying value would increase by £2m. The Group currently assumes a 15% attrition rate.

Other than these significant Level 3 measurements, the Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonable alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity on these remaining Level 3 measurements.

21. Events after the balance sheet date

In March 2017 the Group announced to employees a two month consultation period for a proposal to close the defined benefit scheme to future benefit accrual. The terms of the proposal under consultation would remove the volatility associated with additional future accrual for active members, as well as reducing the existing retirement benefit obligations in the balance sheet. The magnitude of that reduction is likely to be non-trivial but cannot be confirmed until the consultation process has concluded and the basis on which the closure will be implemented has been determined. Based on our current timetable, the outcome will be known in late July and the financial impact will be assessed in the second half of the year.

CREDIT RISK

Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Group in accordance with the terms agreed. Credit risk is evident at both a portfolio and transactional level.

Credit risk manifests itself in the financial instruments and/or products that the Group offers, and those in which the Group invests (including, among others, loans, guarantees, credit-related commitments, letters of credit, acceptances, inter-bank transactions, foreign exchange transactions, swaps and bonds). Credit risk can be found both on and off balance sheet. The disclosures in this section address credit risk on the Group's loans and advances to customers and loans held as financial assets at fair value.

Distribution of loans and advances by credit quality

As at 31 March 2017 (unaudited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
Gross loans and advances to customers:							
Neither past due nor impaired	54	382	604	22,034	517	5,851	29,442
Past due but not impaired	6	11	17	283	20	142	479
Impaired	-	-	-	59	1	139	199
	60	393	621	22,376	538	6,132	30,120

As at 30 September 2016 (audited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
Gross loans and advances to customers:							
Neither past due nor impaired	57	388	612	21,485	502	5,665	28,709
Past due but not impaired	6	12	15	285	11	144	473
Impaired	-	-	-	66	2	146	214
	63	400	627	21,836	515	5,955	29,396

[1] SME lending includes business overdrafts

Credit risk categorisation	Description
Neither past due nor impaired	Loans that are not in arrears and where there is no objective evidence of impairment
Past due not impaired	Loans that are in arrears but have not been individually assessed as impaired
Impaired	Loans which have been individually assessed for impairment as there is objective evidence of impairment including changes in customer circumstances

Gross loans and advances to customers including loans designated at fair value through profit or loss - by industry concentration [1]	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Government and public authorities	36	36
Agriculture, forestry, fishing and mining	1,377	1,458
Financial, investment and insurance	761	698
Property – construction	247	262
Manufacturing	528	577
Instalment loans to individuals and other personal lending (including credit cards)	1,274	1,344
Property – mortgage	22,376	21,836
Asset and lease financing	538	515
Other commercial and industrial	3,554	3,421
	30,691	30,147

Contingent liabilities and credit related commitments - by industry concentration	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Government and public authorities	418	422
Agriculture, forestry, fishing and mining	372	382
Financial, investment and insurance	119	125
Property – construction	181	156
Manufacturing	674	658
Instalment loans to individuals and other personal lending (including credit cards)	1,928	1,931
Property – mortgage	2,209	1,780
Asset and lease finance	122	98
Other commercial and industrial	2,435	2,261
	8,458	7,813

(1) Includes balance due from customers on acceptances and excludes accrued interest

Credit quality of loans and advances

For SME lending, the Group has an internally developed credit rating system, as defined under the Group's credit risk management policy, that uses data drawn from a number of sources to assess the potential risk in lending to the Group's customers. This system assigns an indication of the PD for each customer and can be broadly mapped to external agencies' rating scales. Impaired assets consist of SME lending and secured Retail lending where current circumstances indicate that losses of loan principal and/or interest may be incurred.

Description	eCRS	PD
Higher investment grade	1 to 5	0 < 0.11
Investment grade	6 to 11	0.11 < 0.55
Sub-investment grade	12 to 23	0.55 < 99.99

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's standard credit rating system. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's ratings policy.

The table below presents the credit quality of SME loans and advances that are neither past due nor impaired:

	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Higher investment grade	841	1,077
Investment grade	1,853	1,557
Sub-investment grade	3,674	3,533
	6,368	6,167

The LTV ratio of retail mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans. The table below sets out the indexed LTV analysis of the Group's Retail mortgage stock:

	31 Mar 2017 (unaudited) %	30 Sep 2016 (audited) %
LTV ratio[1]:		
Less than 50%	34	34
50% to 75%	49	50
76% to 80%	7	6
81% to 85%	4	4
86% to 90%	3	2
91% to 95%	1	1
96% to 100%	-	-
Greater than 100%	-	-
Unknown	2	3
	100	100

(1) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the MIAC Acadametrics indices at a given date. Unknown represents loans where data is not currently available due to front book data matching still to be completed and a de minimis amount due to weaknesses in historic data capture processes. Previously, indexation was determined using the Halifax house price index. Prior period comparatives have been restated on the new basis of indexation.

Forbearance

The tables below summarise the level of forbearance at each balance sheet date.

Retail forbearance - mortgages

As at 31 March 2017 (unaudited)	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	1,657	162	0.72	4.5	2.78
Temporary arrangements	1,491	173	0.77	3.0	1.73
Interest only conversion	183	28	0.13	0.1	0.50
Term extension	135	10	0.05	0.1	0.62
Other	26	2	0.01	-	0.44
Legal	184	18	0.08	1.0	5.88
	3,676	393	1.76	8.7	2.23

As at 30 September 2016 (audited)	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	1,843	169	0.78	5.5	3.27
Temporary arrangements	1,460	160	0.73	2.7	1.68
Interest only conversion	154	22	0.10	0.1	0.26
Term extension	123	11	0.05	0.1	0.61
Other	22	2	0.01	-	0.84
Legal	195	20	0.09	1.1	5.60
	3,797	384	1.76	9.5	2.48

The Group also has a number of customers with interest only mortgages past maturity, not subject to forbearance. The Group has formal processes embedded to proactively track and facilitate pre-maturity customer engagement to bring the cases to a formal conclusion which is generally aimed to be achieved within six months after the loan has reached maturity. Complex cases can take longer than this to reach conclusion. At 31 March 2017, the Group had 104 (30 September 2016: 102) customers with interest only mortgages not subject to forbearance and which were post six month maturity with a total value of £13m (30 September 2016: £12m).

A further forbearance reserve of £4m (30 September 2016: £4m) is presently held within the overall collective provision. The effect of this on the above tables would be to increase the impairment allowance noted above to £13m (30 September 2016: £14m) and to increase overall coverage to 3.24% (30 September 2016: 3.52%).

When all other avenues of resolution including forbearance have been explored the Group will take steps to repossess and sell underlying collateral. In the period to 31 March 2017, there were 29 repossessions (12 months to 30 September 2016: 78) of which 6 (12 months to 30 September 2016: 27) were voluntary.

Retail forbearance - unsecured consumer credit

The Group currently exercises limited forbearance strategies in relation to other types of consumer credit, including current accounts, unsecured loans and credit cards. The Group has assessed the total loan balances subject to forbearance on other types of retail lending to be £12m at 31 March 2017 (30 September 2016: £14m), representing 1.16% of the unsecured retail portfolio (30 September 2016: 1.33%). Impairment provisions on forborne balances totalled £3.3m at 31 March 2017 (30 September 2016: £4.2m) providing overall coverage of 26.19% (30 September 2016: 29.02%).

SME Forbearance

The tables below summarise the total number of arrangements in place and the loan balances and impairment provisions associated with those arrangements.

As at 31 March 2017 (unaudited)	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	244	240	3.32	15.6	6.50
Deferral of contracted capital repayments	115	169	2.33	29.5	17.46
Reduction of contracted interest rate	4	1	0.02	0.2	9.94
Alternative forms of payment	6	34	0.47	11.2	32.94
Debt forgiveness	3	7	0.10	1.4	18.29
Refinancing	21	33	0.45	4.3	13.34
Covenant breach/reset/waiver	51	163	2.25	9.6	5.92
	444	647	8.94	71.8	11.09

As at 30 September 2016 (audited)	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	350	320	4.43	25.3	7.90
Deferral of contracted capital repayments	118	143	1.99	18.2	12.69
Reduction of contracted interest rate	7	8	0.12	0.6	7.01
Alternative forms of payment	7	35	0.48	11.2	32.37
Debt forgiveness	8	26	0.36	2.4	9.16
Refinancing	22	51	0.70	4.9	9.76
Covenant breach/reset/waiver	62	208	2.88	8.6	4.12
	574	791	10.96	71.2	8.99

The above table includes loans classified as other financial assets at fair value. The value of fair value loans subject to forbearance at 31 March 2017 is £55m (30 September 2016: £101m), representing 0.76% of the total SME portfolio (30 September 2016: 1.40%). Impairment allowances on these amounts totalled £5m (30 September 2016 £11m), a coverage of 9.05% (30 September 2016: 10.82%).

Loans subject to forbearance across both Retail and SME have reduced in the period to 31 March 2017 as a result of higher levels of historic cases exiting the two year probation period.

Loans and advances which were past due but not impaired

The distribution of loans and advances that are past due but not impaired is analysed below:

As at 31 March 2017 (unaudited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
1 to 29 DPD	4	5	6	77	20	93	205
30 to 59 DPD	-	2	4	72	-	17	95
60 to 89 DPD	1	1	2	13	-	5	22
Past due 90 days and over	1	3	5	121	-	27	157
	6	11	17	283	20	142	479

As at 30 September 2016 (audited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
1 to 29 DPD	5	6	6	81	11	82	191
30 to 59 DPD	-	2	3	65	-	27	97
60 to 89 DPD	-	1	2	28	-	4	35
Past due 90 days and over	1	3	4	111	-	31	150
	6	12	15	285	11	144	473

(1) SME lending includes business overdrafts

Movements in impairment provisions throughout the year are as follows:

As at 31 March 2017 (unaudited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
Opening balance	3	6	10	39	2	155	215
Charge for the period	2	4	5	-	-	15	26
Amounts written off	(2)	(4)	(6)	(2)	(1)	(10)	(25)
Recoveries of amounts written off in previous years	1	1	1	-	-	(1)	2
Other [2]	-	-	-	-	-	5	5
Closing balance	4	7	10	37	1	164	223
Specific	-	-	-	17	-	55	72
Collective	4	7	10	20	1	109	151
	4	7	10	37	1	164	223

As at 30 September 2016 (audited)	Retail overdrafts £m	Credit cards £m	Other retail lending £m	Mortgages £m	Lease finance £m	SME lending [1] £m	Total £m
Opening balance	5	7	11	39	2	166	230
Charge for the year	(1)	3	5	1	1	30	39
Amounts written off	(4)	(9)	(14)	(2)	-	(39)	(68)
Recoveries of amounts written off in previous years	4	5	7	1	-	1	18
Other [2]	(1)	-	1	-	(1)	(3)	(4)
Closing balance	3	6	10	39	2	155	215
Specific	-	-	-	19	1	44	64
Collective	3	6	10	20	1	111	151
	3	6	10	39	2	155	215

(1) SME lending includes business overdrafts.

(2) Other includes the recognition of certain impaired loans which were previously recorded at fair value through profit or loss, the unwind of net present value elements of specific provisions and other minor movements.

BALANCE SHEET AND PRUDENTIAL REGULATION RISKS

Balance sheet risks in the financial services industry are highly regulated with ongoing changes in the regulatory environment expected to influence the risks and their management. The key risks include capital, liquidity and funding risks, market risk which in the case of the Group is non traded market risk (incorporating interest rate and foreign exchange risks), pension risk and non traded equity risk.

CAPITAL RISK

Capital is held by the Group to protect its depositors, to cover inherent risks in a normal and stressed operating environment and to support the Group's strategy of sustainable growth. Capital risk is the risk that the Group has insufficient quantity or quality of capital to support its operations.

Regulatory capital (unaudited) [1]

CET1 capital	31 Mar 2017 £m	30 Sep 2016 £m
Capital instruments	88	88
Retained earnings and other reserves	2,701	2,673
Regulatory adjustments and deductions:		
Prudent valuation adjustment [2]	(7)	(7)
Intangible assets [3]	(298)	(256)
Deferred tax asset (DTA) relying on future profitability [4]	(37)	(35)
Cash flow hedge reserve	(34)	(66)
	2,413	2,397
Tier 1 capital		
AT1 capital instruments	450	450
Total Tier 1 capital	2,863	2,847
Tier 2 capital		
Subordinated debt	474	474
Credit risk adjustments	151	151
	625	625
Total capital	3,488	3,472

(1) This table shows the capital position on a CRD IV "fully loaded" basis.
(2) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.
(3) Intangible assets do not qualify as capital for regulatory purposes.
(4) Under CRD IV, deferred tax assets that rely on future profitability are deducted from CET1 capital.

Reconciliation of statutory total equity to regulatory capital (unaudited)	31 Mar 2017 £m	30 Sep 2016 £m
Statutory total equity	3,249	3,211
Deductions from capital	(305)	(263)
DTA relying on future profitability	(37)	(35)
Cash flow hedge reserve	(34)	(66)
Foreseeable AT1 dividends and charges	(10)	-
Regulatory Tier 1 capital	2,863	2,847

Regulatory capital flow of funds (unaudited)	31 Mar 2017 £m	30 Sep 2016 £m
CET1 capital		
CET1 capital at 1 October	2,397	2,405
Share for share exchange and nominal reduction	-	(135)
Share premium	-	(670)
Retained earnings and other reserves (including special purpose entities)	28	576
Prudent valuation adjustment	-	(2)
Intangible assets	(42)	9
DTA relying on future profitability	(2)	238
Defined benefit pension fund assets	-	42
Cash flow hedge reserve	32	(66)
	2,413	2,397
Tier 1 capital		
Tier 1 capital at 1 October	450	450
Capital instruments repurchased: perpetual capital notes	-	(450)
Capital instruments issued: perpetual subordinated contingent convertible notes	-	450
	450	450
Total Tier 1 capital	2,863	2,847
Tier 2 capital		
Tier 2 capital at 1 October	625	598
Credit risk adjustments	-	13
Capital instruments repurchased: subordinated debt	-	(475)
Capital instruments issued: subordinated debt	-	474
Removal of minority interest deduction on subordinated debt	-	15
Total Tier 2 capital	625	625
Total capital	3,488	3,472

Minimum Pillar 1 capital requirements (unaudited)	31 Mar 2017 £m	30 Sep 2016 £m
Credit risk	1,393	1,352
Operational risk	130	130
Counterparty risk	12	17
Credit valuation adjustment	16	23
Tier 1 regulatory capital requirements	**1,551**	**1,522**

Risk-weighted asset flow statement (unaudited)	£m
Risk-weighted assets at 1 October 2016	19,029
Book size growth	342
Book quality improvement	(146)
Methodology and policy	156
Risk-weighted assets at 31 March 2017	**19,381**

Capital requirements for calculating RWAs (unaudited)	At 31 March 2017 Capital required £m	At 31 March 2017 RWA £m	At 31 March 2017 Exposure £m	At 30 September 2016 Capital required £m	At 30 September 2016 RWA £m	At 30 September 2016 Exposure £m
Central governments or central banks	-	-	8,276	-	-	7,002
Regional governments or local authorities	2	20	205	2	20	192
Public sector entities	-	5	10	-	5	13
Multilateral development banks	-	-	239	-	-	195
Financial institutions	17	218	1,961	19	234	1,344
Corporates	281	3,515	3,897	283	3,533	3,846
Retail	71	881	1,175	72	897	1,196
Secured by mortgages on immovable property	913	11,400	26,842	897	11,242	26,482
Exposures in default	57	714	569	33	408	340
Collective investments undertakings (CIU)	-	2	2	-	3	3
Equity exposures	3	37	35	1	11	9
Items associated with particularly high risk	2	26	18	1	15	10
Covered bonds	3	38	380	2	19	191
Other items	44	552	1,800	42	519	1,650
Total credit risk	**1,393**	**17,408**	**45,409**	1,352	16,906	42,473
Operational risk	130	1,623		130	1,623	
Counterparty risk	12	155		17	214	
Credit valuation adjustment	16	195		23	286	
	1,551	19,381		1,522	19,029	

The "Exposure" amounts disclosed above are post credit conversion factors and pre credit risk mitigation.

Risk-weighted assets (unaudited) [(1)]	31 Mar 2017 £m	30 Sep 2016 £m
Retail mortgages	8,249	7,998
SME lending	7,396	7,087
Other retail lending	907	915
Other lending	190	152
Other [(2)]	666	754
Credit risk	17,408	16,906
Credit valuation adjustment	195	286
Operational risk	1,623	1,623
Counterparty risk	155	214
Total risk-weighted assets	19,381	19,029

Capital ratios		
CET1 ratio [(3)]	12.5%	12.6%
Tier 1 ratio	14.8%	15.0%
Total capital ratio	18.0%	18.2%

(1) Risk-weighted assets (RWAs) are calculated under the standardised approach.
(2) The items included in the "other" exposure class that attract a capital charge include items in the course of collection, cash in hand, fixed assets and other deferred tax assets that are not deducted.
(3) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.

Leverage ratio (unaudited)	31 Mar 2017 £m	30 Sep 2016 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	2,413	2,397
AT1 capital	450	450
Total Tier 1	2,863	2,847
Exposures for the leverage ratio		
Total assets as per published financial statements	40,228	39,929
Adjustment for off-balance sheet items	2,128	1,982
Adjustment for derivative financial instruments	(286)	(399)
Adjustment for securities financing transactions (SFTs)	936	601
Regulatory adjustments and deductions	(376)	(364)
Leverage ratio exposure	42,630	41,749
Leverage ratio	6.7%	6.8%

FUNDING AND LIQUIDITY RISK

Funding risk relates to the impact on the Group's strategy of being unable to raise funds from customers and the wholesale markets of sufficient quantity and of appropriate mix and tenor. An inability to raise sufficient funds may lead to a reduction in lending growth or a requirement to raise the price paid for deposits, both outcomes having an adverse effect on shareholder value. Where funding risk manifests itself in an adverse effect on mix and tenor, for example a high proportion of short term wholesale deposits, there is an increased liquidity risk to the Group.

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

External credit ratings

The Group's long-term credit ratings are summarised below:

	Outlook as at	As at	
	15 May 2017 [(1)]	31 Mar 2017	30 Sep 2016
CYBG PLC			
Fitch	Stable	BBB+	BBB+
Standard & Poor's	Negative	BBB-	BBB-
Clydesdale Bank PLC			
Fitch	Stable	BBB+	BBB+
Standard & Poor's	Negative	BBB+	BBB+
Moody's[(2)]	Stable	Baa2	Baa2

(1) For detailed background on the latest credit opinions, by S&P and Fitch, please refer to the respective rating agency websites.
(2) Long-Term Deposit Rating

Funding and liquidity

The Group continues to have a strong funding and liquidity position and seeks to achieve an appropriate balance between profitability and liquidity risk. Funding is predominantly provided by retail and SME customers, and is supported by medium term secured funding issuance from the Group's Lanark and Lannraig securitisation programmes and its Regulated Covered Bond platform. These funding programmes are a source of strength for the Group and leverage the Group's high quality mortgage book. The Group ensures that funding is in place before lending to customers.

The BoE launched the TFS in 2016 to allow banks and building societies to borrow from the BoE at rates close to bank base rate. TFS was designed to reinforce the transmission of the August base rate cut (and potential future rate cuts) to those interest rates actually faced by households and businesses. The Group is supportive of these aims and reduced its standard variable rate mortgage rate by the full 0.25% following the rate cut. The Bank drew down £1,900m from the scheme during the half year which supports this rate reduction by reducing the Bank's overall funding cost and is intended to provide support to lending growth throughout 2017.

The LDR increased from 112% to 117% during the half year due to growth in customer lending combined with a managed reduction in short-term corporate deposits which provided little liquidity benefit to the Group.

The Group's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above PRA requirements. The portfolio is managed by diversifying the mix of assets held to reduce basis risk and optimise the yield. Core liquidity is held predominantly in deposits with central banks, UK Government Gilts, bonds issued by supranational agencies and high quality covered bonds. Total unencumbered liquid assets were managed lower from £5,081m to £4,158m. This is primarily due to a lower balance with the BoE as a result of the lending growth and deposit actions described above. The Group was compliant with all internal and regulatory liquidity metrics at 31 March 2017.

Liquid asset reserve	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
Cash and balances with central banks	5,422	5,955
Encumbered cash balances	(2,648)	(2,468)
	2,774	3,487
Financial assets available for sale	1,994	1,695
Encumbered available for sale securities	(610)	(101)
	1,384	1,594
Total unencumbered liquid assets	4,158	5,081

In addition to the above, as at 31 March 2017, the Group had £6.4bn (30 September 2016: £2.8bn) of gross eligible collateral pre-positioned with the BoE for potential use in its liquidity facilities.

Liquidity composition

Liquid assets	31 Mar 2017 (unaudited) £m	30 Sep 2016 (audited) £m
UK Government Treasury Bills and Gilts	1,254	1,286
Cash and cash at central bank	3,060	3,773
Note cover [1]	2,362	2,182
Other debt securities	739	409
	7,415	7,650

[1] Note cover is excluded from PRA regulatory liquidity.

Encumbered assets by asset category

Examples of reasons for asset encumbrance include, amongst others, supporting the Group's secured funding programmes to provide stable term funding to the Group, use of assets as collateral for payments systems in order to support customer's transactional activity and, providing security for the Group's issuance of Scottish banknotes. The ability to encumber additional assets will also support any future activity through the TFS. The Group monitors the level of asset encumbrance to ensure an appropriate balance is maintained.

As at 31 March 2017

	Assets encumbered with non-Central Bank counterparties				Other assets					
						Assets not positioned at the Central Bank				
	Covered Bonds £m	Securitisations £m	Other £m	Total £m	Positioned at the Central Bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Cash and balances with central banks	-	-	-	-	2,648	2,774	-	-	5,422	5,422
Due from other banks	196	386	327	909	-	-	263	-	263	1,172
Investments – available for sale	-	-	512	512	98	1,383	36	-	1,517	2,029
Other financial assets	-	-	-	-	-	-	570	-	570	570
Derivatives	-	-	-	-	-	-	-	356	356	356
Loans and advances to customers	998	4,473	-	5,471	6,392	5,027	10,021	3,003	24,443	29,914
Intangible Assets	-	-	-	-	-	-	-	298	298	298
Deferred tax assets	-	-	-	-	-	-	-	162	162	162
Other assets	-	-	-	-	-	-	110	195	305	305
Total Assets	1,194	4,859	839	6,892	9,138	9,184	11,000	4,014	33,336	40,228

As at 30 September 2016

	Assets encumbered with non-Central Bank counterparties				Other assets					
						Assets not positioned at the Central Bank				
	Covered Bonds £m	Securitisations £m	Other £m	Total £m	Positioned at the Central Bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Cash and balances with central banks	-	-	-	-	2,468	3,487	-	-	5,955	5,955
Due from other banks	156	282	337	775	-	-	177	-	177	952
Investments – available for sale	-	-	-	-	101	1,594	36	-	1,731	1,731
Other financial assets	-	-	-	-	-	-	750	-	750	750
Derivatives	-	-	-	-	-	-	-	585	585	585
Loans and advances to customers	1,149	5,144	-	6,293	2,902	3,946	13,003	3,058	22,909	29,202
Intangible Assets	-	-	-	-	-	-	-	256	256	256
Deferred tax assets	-	-	-	-	-	-	-	183	183	183
Other assets	-	-	-	-	-	-	122	193	315	315
Total Assets	1,305	5,426	337	7,068	5,471	9,027	14,088	4,275	32,861	39,929

Other information

Glossary

For a glossary of terms and abbreviations used within this report refer to pages 291 to 296 of the Group annual report and accounts for the year ended 30 September 2016.

For terms not previously included within the Glossary, or where terms have been redefined refer below:

Default	A customer is in default when either they are more than 90 days past due on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
Indexed loan to value (LTV) of the mortgage portfolio	The mortgage portfolio weighted by balance and indexed using the MIAC Acadametrics indices at a given date.
Net interest margin (NIM)	Net interest income as a percentage of average interest earning assets for a given period. Net interest income of £411m (31 March 2016: £400m) is divided by average interest earning assets for a given period of £36,963m (31 March 2016: £35,994m) (which is then adjusted to exclude short term repos used for liquidity management purposes, amounts received under the Conduct Indemnity and not yet utilised, and any associated income). As a result of the exclusions noted above, average interest earning assets used as the denominator have reduced by £643m (31 March 2016: £618m) and the net interest income numerator by £0.7m (31 March 2016: £1.3m).
Tangible net asset value (TNAV) per share	Tangible equity as at the period end divided by the closing number of ordinary shares.
Term Funding Scheme (TFS)	Launched in 2016 by the BoE to allow banks and building societies to borrow from the BoE at rates close to base rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Underlying profit after tax attributable to ordinary equity holders	Underlying profit before tax of £123m (31 March 2016: £107m) less tax charge of £29m (31 March 2016: £21m), less dividends and distributions (net of tax relief) of £15m (31 March 2016: £23m) and was equal to £79m (31 March 2016: £63m). The underlying tax charge is calculated by applying the statutory tax rate for the relevant period to the taxable items adjusted on the underlying basis.

Officers and professional advisers

<u>Non-Executive Directors</u>	
Chairman	Jim Pettigrew [1] [4]
Deputy Chairman and Senior Independent Non-Executive Director	David Bennett [1] [2] [3] [4]
Senior Independent Non-Executive Director	Richard Gregory (resigned 10 January 2017)
	Clive Adamson [2] [3]
	David Browne [1] [2] [3]
	Paul Coby [3]
	Adrian Grace [1]
	Fiona MacLeod [3] [4]
	Dr Teresa Robson-Capps [2]
	Tim Wade [2] [3]
<u>Executive Directors</u>	David Duffy
	Debbie Crosbie
	Ian Smith
Company Secretary	Lorna McMillan
Group General Counsel	James Peirson
Independent auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

(1) Member of the Remuneration Committee
(2) Member of the Audit Committee
(3) Member of the Risk Committee
(4) Member of the Governance and Nomination Committee

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', 'prospects' 'outlooks', 'projects', '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 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 BoE, the FCA and/or other regulatory bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, asset position and/or credit ratings of the 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. Neither the Group nor its Directors give any 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. No member of the Group or its Directors undertakes any obligation to update or revise any such forward looking statement following the publication of this document 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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