



CYBG

ANNUAL REPORT  
& ACCOUNTS

2016

SUMMARY

YEAR ENDED 30 SEPTEMBER 2016

CYBG PLC

## SUMMARY OF GROUP RESULTS

THE GROUP HAS CONTINUED TO MAKE  
PROGRESS TOWARDS ACHIEVING THE  
BUSINESS COMMITMENTS COMMUNICATED  
TO THE MARKET:

6.5%

Growth in the  
mortgage book

6.2%

Underlying growth  
in deposits

6.1%

Growth in the Core  
SME lending book

39%

Growth in underlying  
PBT to £221m

112%

LDR

12.6%

CET1

2.26%

NIM – in line  
with guidance

74%

Underlying  
CIR reduced

5.2%

Underlying RoTE  
broadly stable

The Group made a statutory profit before tax of £77m. The Group's statutory loss after tax of £164m in the year was impacted by an exceptional tax charge of £197m, following changes in tax legislation which reduced the corporation tax rate and further restricted the use of historical losses.

Group underlying profit before tax of £221m increased from £159m for the year ended September 2015; this was primarily due to an increase in operating income, reflecting a reduction in funding costs across both retail deposits and wholesale funding, and a reduction in impairment losses as a result of strong credit performance.

## CHAIRMAN'S STATEMENT



“ 2016 has been a landmark year in the long history of our bank as we became independent for the first time since the 1920s.

### HIGHLIGHTS

#### DELIVERING ON KEY METRICS IN 2016:

2.26%

Net Interest  
Margin (NIM) 226  
basis points (bps),  
up 3bps vs FY2015

6.1%

SME core book grew  
6.1% with over £2.2bn  
of new loans and facilities  
(+15% vs FY2015)

6.5%

Annual growth  
in mortgages

12.6%

Well capitalised – CET1  
ratio remains strong

### POSITIVE JAWS

Income growth 2.6%,  
underlying costs in line with  
FY2015 and £33m lower  
than original guidance

£350m

Investing more than £350m in the next two years  
to deliver better services and experience for customers  
and create a more efficient business.

This year has heralded big changes for our bank – the demerger from National Australia Bank (NAB) and IPO at the start of the calendar year gave rise to CYBG PLC, a FTSE 250 company, holding a dual listing on both the London Stock Exchange (LSE) and Australian Securities Exchange (ASX) – and we became an independent company for the first time since the 1920s.

I'm delighted to deliver the first Annual Report of CYBG, and I would like to thank the Board, the Executive Leadership Team, and my colleagues throughout the business for their hard work in delivering a successful set of results in 2016. Everyone has played a part in making this a landmark year for our business.

Our ambition is straightforward: to become the credible alternative to the big UK banks. We intend to achieve this using our scalable infrastructure to support our growth ambitions, and our enhanced digital capability to streamline processes and deliver a superior customer experience.

As outlined at our Capital Markets Day in September, our strategy is also straightforward: drive shareholder returns through sustainable customer growth, increased efficiency and capital optimisation.

We have a strong international shareholder base who have shown great support for our business, a high calibre leadership team and we have strengthened the Board with Clive Adamson, David Bennett, Paul Coby, Fiona MacLeod and Tim Wade appointed as new independent Non-Executive Directors, complementing the Board's expertise and governance oversight. At the same time we have put in place appropriate control and governance standards for a listed company, which we benchmark against the market leaders.

In our first year as CYBG we have demonstrated significant progress in delivering on our plan. Despite the uncertainty in the wake of Brexit, we believe the strength of our franchise – a robust capital position, strong asset quality, low cost diversified funding and resilient, scalable infrastructure – combined with our talent and capability gives us the flexibility to adapt to the changing operating environment. Our focus for next year is to build on the progress and achievements of 2016, and continue to build a culture that puts the customer at the heart of everything we do. I am confident that we can deliver on our strategy, further improve our performance and enhance returns for our shareholders.

Jim Pettigrew | 21 November 2016

## CHIEF EXECUTIVE OFFICER'S STATEMENT

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We have built strong foundations and positive momentum going into 2017. We are optimistic about the future as the only true full service, challenger bank of scale to the status quo in the UK market.

Our 2016 results demonstrate the progress we have made on our journey towards being a more customer focused and commercially minded bank with continued mortgage loan growth ahead of the market; our SME book returning to growth for the first time in four years; a stable net interest margin; costs £33m below our initial guidance for the year; a reduced bad debt charge; and underlying profit before tax up 39% year on year.

Our strategy remains unchanged – our priorities of sustainable customer growth, efficiency and capital optimisation will be delivered by a strong customer focused culture, a robust approach to change management and investment, and development of our omni-channel capabilities, all within a framework of prudent risk management and governance. My focus, and that of my leadership team, is on execution, and our organic plan is predicated in large part on improving areas of our performance that we can control, such as costs and efficiency, thereby reducing the risk in delivering on our targets.

We will continue to evaluate potential inorganic opportunities to enhance our business, provided they are in line with our strategic objectives and will create value for our shareholders. We have established a set of capabilities (including a scalable digital platform, customer service excellence and senior management cadre) that give significant confidence in our ability to execute, should such inorganic opportunities arise.

In September we updated our medium term targets, bringing forward delivery of key metrics such as our CIR – now 55%-58% by FY2019, previously below 60% by FY2020 – and RoTE, where we are bringing our target of double digit percent forward to FY2019 from FY2020.

CYBG is committed to providing customers with a banking experience that is useful, simple and rewarding. We know that people want to manage money on their terms, not ours, so we will invest more than £350m over the next two years to simplify our business, drive cost and capital efficiency, maintain the resilience of our platforms and support the continued roll out of our omni-channel model. The delivery of our strategy will provide an improved branch experience, supported by a strong digital offering, reflecting the new face of banking and putting customers at the heart of what we do. We have already embarked on that journey with online account opening, B, and Apple Pay all going live during the year, and further launches planned for 2017.

CYBG is perfectly placed to disrupt the market – we have the full service capabilities that no challenger bank can offer; yet we are smaller and more agile than the complex structures of the 'big 5'. We are well capitalised, have a high quality loan book and prudent risk appetite, along with powerful, established local brands, now joined by an innovative new brand in B which is already broadening our customer demographic and reach outside of our core regions.

We firmly believe that our size and scale, strong funding base and balance of assets across retail and business lending give us a solid foundation. Our flexibility will also enable us to selectively target growth opportunities in specific market segments as they arise and we remain focused on delivering improved returns for shareholders while adapting to the new economic environment.

While it is still too early to draw firm conclusions regarding the impact of the referendum vote to leave the EU, we are mindful of the greater uncertainty now facing the UK economy and how this will impact on our customers and the demand for credit. We will continue to support customers through the current period of uncertainty and beyond with our range of products for both consumers and SMEs.

Across CYBG we are focusing on the future with confidence. Over the next twelve months I am confident we will show continued progress against our targets and delivery of commitments for our customers, our people and our shareholders. Finally, I am very grateful to the Chairman and the rest of the Board for their backing and insight as we embark on the journey ahead.

### Outlook

In September this year we laid out our targets for the coming financial year ending 30 September 2017. We expect NIM to be broadly stable year on year and underlying costs of c. £690 - £700 million. The operating environment continues to be dynamic, the impact of Brexit is not yet fully understood, and our markets remain competitive.

Looking further ahead, we also 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).

## CHIEF EXECUTIVE OFFICER'S STATEMENT

In order to deliver these targets we are targeting 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 also confirmed 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).

Across CYBG we are focusing on the future with confidence. Delivering brilliantly simple service to our customers is at the heart of our bank and over the next year we are confident we will show continued progress against our targets and delivery of commitments for our customers, our people and our shareholders as part of our two year £350m investment programme.



David Duffy | 21 November 2016

## SUMMARY OF GROUP RESULTS

Consolidated income statement – underlying basis	2016 £m	2015 £m	2016 vs 2015 %
Net interest income	806	787	2.4
Non-interest income	183	177	3.4
<b>Total operating income</b>	<b>989</b>	964	2.6
Total operating and administrative expenses	(729)	(727)	0.2
<b>Operating profit before impairment losses</b>	<b>260</b>	237	9.3
Impairment losses on credit exposures <sup>(1)</sup>	(39)	(78)	(50.2)
<b>Underlying profit on ordinary activities before tax</b>	<b>221</b>	159	39.2
Conduct charges	(51)	(486)	
Restructuring expense	(45)	(17)	
Separation costs	(11)	(10)	
Net gain on capital and debt restructuring <sup>(2)</sup>	1	61	
Pension increase exchange gain	-	18	
Loss on impairment of intangible assets	(45)	(10)	
Gain on disposal of VISA share	7	-	
<b>Statutory profit/(loss) on ordinary activities before tax</b>	<b>77</b>	(285)	
Tax (charge) / credit	(241)	56	
<b>Statutory loss for the year</b>	<b>(164)</b>	(229)	

<sup>(1)</sup> Impairment losses on credit exposures relate solely to loans and advances to customers (refer to notes 16 and 17 to the 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 notes 6 and 14 to the financial statements).

<sup>(2)</sup> Includes a £1m gain on debt restructuring. The comparative period includes gains of £2m on debt restructuring, and a gain of £61m and a loss of £2m in relation to capital restructuring (refer to notes 6, 7 and 12 to the financial statements).

Summarised consolidated average balance sheet	2016 £bn	2015 £bn	2016 vs 2015 %
Total assets	39.0	38.7	0.8
Interest earning assets	36.3	35.8	1.3
Customer loans <sup>(1)</sup>	29.4	28.2	4.2
Customer deposits <sup>(2)</sup>	26.3	25.1	4.6

<sup>(1)</sup> Customer loans include gross loans and advances to customers, loans designated at fair value through profit or loss and amounts due from customers on acceptances.

<sup>(2)</sup> Customer deposits include both interest and non-interest bearing accounts and deposits.

# SHAREHOLDER INFORMATION

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## Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held at 10am (Melbourne time – AEDT) on Tuesday, 31 January 2017 at the Melbourne Convention and Exhibition Centre, 1 Convention Centre Place, South Wharf, Melbourne, Victoria 3006, Australia.

The Notice of AGM can also be found on the CYBG PLC website ([www.cybg.com](http://www.cybg.com)).

## Shareholder Enquiries

The Company's share register is maintained by the Company's Registrar, Computershare. Shareholders with queries relating to their shareholding should contact Computershare directly using one of the methods below:

### Registrar

#### Computershare UK

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, England, United Kingdom BS99 6ZZ

Tel within UK – 0370 707 1172

Tel outside UK – +44 370 707 1172

E-mail: [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

Web: [www.investorcentre.co.uk](http://www.investorcentre.co.uk)

#### Computershare Australia

Computershare Investor Services Pty Limited, Yarra Falls 452 Johnston Street, Abbotsford VIC 3067 Australia

Tel within Australia – 1800764308

Tel outside Australia – +61 3 9415 4142

E-mail: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

Web: [www.investorcentre.com/au](http://www.investorcentre.com/au)

## Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact the Company's Registrar, Computershare, to request that the accounts are combined. There is no charge for this service.

## Electronic Communications

CYBG PLC uses its website ([www.cybg.com](http://www.cybg.com)) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping the Company reduce its costs and its impact on the environment.

Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's Registrar, Computershare. Shareholders can sign up for electronic communications online via the following links:

Holders of shares on the London Stock Exchange:

[www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms)

Holders of CDIs on the Australian Securities Exchange:

[www.investorcentre.com/au](http://www.investorcentre.com/au)

## Corporate Website

A wide range of information on the Company is available at the CYBG PLC website ([www.cybg.com](http://www.cybg.com)) including:

- Financial information – annual and half-yearly reports as well as trading updates;
- Share price information – current trading details and historical charts;
- Shareholder information – investor presentations and share register profile;
- News releases – current and historical.

## Unsolicited telephone calls and communication

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal with only financial services firms that are authorised by the FCA in the UK or by ASIC in Australia. You can check a firm is properly authorised by the FCA before getting involved by visiting [www.fca.org.uk/register](http://www.fca.org.uk/register). Similar services exist on the ASIC website at [www.asic.gov.au](http://www.asic.gov.au). If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme in the UK if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to [www.fca.org.uk/consumers/report-scam-unauthorised-firm](http://www.fca.org.uk/consumers/report-scam-unauthorised-firm).

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 CYBG PLC and its group (the "CYBG Group") and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/ or geopolitical factors, changes to law and/ or the policies and practices of the Bank of England, the Financial Conduct Authority and/ or other regulatory bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, asset position and/ or credit ratings of the CYBG Group, the status of the UK's membership of the European Union, and future capital expenditures and acquisitions.

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 CYBG 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 CYBG 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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