



**A DIFFERENT  
WAY OF BANKING**

**ANNUAL SUMMARY 2017**

## Chairman's statement



“I am pleased to report on another year of strong progress for CYBG as we continue to execute our strategy to create the only credible alternative to the big UK banks.”

2017 was another year of strong progress for CYBG, with good momentum in the execution of the three pillars of our strategic plan – sustainable customer growth, efficiency and capital optimisation – and with it the successful delivery of our financial targets for 2017. The hard work of the Board, the Executive Leadership Team and all of our colleagues means I am pleased to be able to reiterate our medium-term guidance with renewed confidence.

The Group's successful delivery this year means that I am pleased to announce that the Board is recommending the payment of our inaugural dividend of 1.0 pence per share. Since the Initial Public Offering (IPO) we have talked about being a dividend paying stock and this proposed dividend represents a landmark event in the process of transforming CYBG into a bank that generates and distributes a sustainable return on its equity to shareholders. The continued delivery of our strategy should help us to build on this firm foundation as we move forward.

As well as their commitment to our customers, I am very proud of the way my colleagues support the communities in which we operate. Almost 7,000 volunteering hours were undertaken during 2017 and, with matching through our charity foundation, we have raised over £5.8m for our charity partner Hospice UK among a number of other initiatives.

Economic conditions in the UK remain muted but, for the moment at least, stable. Despite the uncertainty surrounding Brexit negotiations and increased inflation causing real wage deflation, we have not seen a deterioration in the quality of our assets and we remain focused on delivering sustainable growth within our prudent risk appetite.

I would like to thank all of our colleagues, the Executive Leadership Team and the Board for their continued dedication and commitment to the transformation of CYBG. I would also like to personally thank Richard Gregory who left the Board in January for his contribution over many years.

Our performance in 2017 represents a significant achievement. It is only the first step in delivering our three-year plan. We therefore remain focused on executing the strategy we outlined at our Capital Markets Day in September 2016, in order to deliver an exceptional customer experience for our personal and SME customers and sustainable returns to our shareholders.

A handwritten signature in blue ink, appearing to read 'Jim Pettigrew'.

**Jim Pettigrew**  
Chairman

20 November 2017

## Chief Executive Officer's review



**“Whether it is prototyping new technologies, opening our 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.”**

I am delighted to report that we have maintained momentum in delivering our strategic priorities and commitments and, as a result, we are delivering significantly improved financial performance, have recorded our first statutory profit in over five years and are recommending an inaugural dividend to shareholders.

As the only truly full-service challenger bank of scale across both Retail and SME in the UK market, we have delivered ahead of market growth in both mortgages and SME lending and we remain on track to deliver our commitment to provide up to £6bn of lending to SMEs by the end of 2019.

Our results show improved underlying profit, sustainable loan growth, a stable margin and improved returns – all achieved in a highly competitive market and a continuing low growth, low interest rate environment. Our cost efficiency programme is also ahead of plan, with underlying operating costs coming in at £675m, down 7% year on year. We have also continued to work through our legacy conduct issues and our statutory profit includes the impact of a conduct charge of £58m primarily due to historical payment protection insurance (PPI) mis-selling.

CYBG is perfectly placed to disrupt the market – we have the size and full-service Retail and SME capabilities that no other UK challenger bank can offer, yet we are smaller and more agile than the complex structures of the ‘big five’ UK banks. We are well capitalised, have a high-quality loan book and prudent risk appetite, along with powerful, established local brands. These have now been joined by an innovative brand in B, which has broadened

our customer demographic and reach outside of our core regions. We have over 100,000 B customers since launch in 2016 and we were proud to receive the FStech Award 2017 for Digital Launch of the Year.

The pace and scale of transformation across our business has been considerable in 2017. We have kept up our relentless focus on enhancing our customers’ experience through operational improvements and have maintained excellent progress on the delivery of our plan to provide a truly omni-channel model for customers. As part of our digital journey, over the past year we have introduced straight-through online account opening, Apple and Android Pay, as well as piloting an innovative new online SME lending facility through one of our Fintech partnerships. In addition, our migration of our Clydesdale and Yorkshire Bank accounts to our digital platform, iB, is well advanced and we expect all personal customers to begin migrating to iB on the web by the end of 2017 with SME customers to begin migration onto iB, both mobile and web, in 2018.

Like other banks and high street retailers we are seeing a shift in the way customers choose to do business with us and more often customers are using telephone, internet and mobile channels to do day-to-day banking. As a result, the number of transactions which take place in branches is falling, with customers increasingly using a branch only when they want to speak with us about a significant life event. We are constantly reviewing our branch footprint and while a number of branches were closed this year, we opened new flagship branches in Edinburgh and Birmingham as part of a broader multiyear strategy to expand our presence in key northern cities.

In April, we opened our innovation lab, Studio B, in London. Unlike anything else on the high street, Studio B enables us to collaborate directly with customers and other interested parties on the design of future banking products and services, then showcase and test our best ideas with colleagues, customers and members of the public – all within a fully functioning customer banking centre. While in September we expanded our UK presence into Birmingham with the opening of a next generation B store which, as well as being a fully operational branch, is also a showcase for customers to experience our digital innovations.

Over the next 12 months I am confident we have both the opportunity and the ability to create a differentiated customer experience that positions us as a progressive, forward-looking organisation able to thrive today, tomorrow and in the future, delivering on commitments to our customers, our people and our shareholders. Finally, I am very grateful to the Chairman, the Board and our colleagues for their backing and insight as we continue on our journey.

**David Duffy**  
Chief Executive Officer

# Strategy in action

## Our strategic priorities

**Drive sustainable customer growth** by investing to broaden the franchise across our target segments and regions while enhancing customer experience

**Improve efficiency** by making our network, operations and organisation more efficient and agile

**Capital optimisation** by securing IRB accreditation and exploring opportunities across the asset portfolio

## Our progress during FY2017

- Current account growth of 5.3% driven by continued success of B and higher business current account balances
- Enhancements to our mortgage application process contributed to mortgage growth significantly ahead of market
- Reinvisitation of our SME franchise drove SME loan drawdowns up 13%
- Number of digital users up 10% annually – over 40% of B app users from younger, more affluent target markets
- Continuous enhancement to digital functionality: straight through online account opening, Android Pay for B, B on Web, paperless statements, and Touch ID log in
- Flagship locations opened as part of an ongoing improvement in our physical network

- Efficiency programme ahead of schedule
- Improvements to business banking experience, including 80% reduction in time taken to open a business account
- 40% increase in SME credit application decisions reached in same day
- We have reduced the time taken from mortgage application to offer by c.50% for all applicants
- Enterprise-wide actions to reduce third-party costs have already achieved run-rate savings of £27m
- Transitional Service Agreement (TSA) programme milestones successfully delivered with 22 out of 29 TSAs now complete
- Core full time equivalent (FTE) reduction of 9% in FY2017
- Reconfiguration of network, with 79 branches closed
- Designed, developed and deployed world-leading robotic solutions across the PPI operation
- Cumulative run rate savings of £90m since efficiency programme began
- On track to deliver FY2019 efficiency targets

- Significant improvement in underlying RoTE to 7.5%
- Defined benefit pension scheme (the Scheme) closed to future accrual
- The triennial valuation of the Scheme has also been agreed, resulting in a reduced deficit of £290m and no requirement for the Group to increase contributions to the Scheme
- On track to deliver double-digit RoTE by FY2019
- Recommending inaugural dividend to shareholders
- IRB waiver application submitted to the Prudential Regulation Authority (PRA) and overall programme on track
- IRB modelling development and data assessment improvements ongoing

## Our KPIs for FY2017

**+6.0%**

Loan growth

**2.27%**

NIM

**115%**

Loan to deposit ratio (LDR)

**£675m**

Underlying costs

**67%**

Underlying cost to income ratio (CIR)

**12.4%**

CET1 ratio

**7.5%**

Underlying RoTE

## 2017 highlights

Delivering sustainable customer growth

**+7.5%**

mortgage lending annual growth

**+5.9%**

SME core lending annual growth

Stable net interest margin (NIM)

**2.27%**

Improving efficiency

**7.4%**

reduction in underlying costs

**Positive**

jaws

First statutory profit in over 5 years

**£182m**

statutory profit

Strongly capitalised

**12.4%**

Common Equity Tier 1 (CET1) ratio

Improving returns

**7.5%**

underlying Return on Tangible Equity (RoTE)

Inaugural dividend recommended by the Board

**1.0**

pence per share

# Shareholder information

## Annual general meeting (AGM)

The AGM of the Company will be held at 10am (GMT) on Wednesday 31 January 2018 at the offices of Pinsent Masons LLP, 30 Crown Place, Earl Street, London, EC2A 4ES, United Kingdom. The Notice of AGM can 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  
United Kingdom BS99 6ZZ

Tel within UK – 0370 707 1172  
Tel outside UK – +44 370 707 1172  
Email: [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 – 03 9415 4142  
Email: [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 who 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

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. 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). If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme 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 paper used for this report is produced using 100% virgin wood fibre from well-managed forests. The pulp is bleached using an Elementary Chlorine Free (ECF) process and the mill has both FSC® and PEFC™ certification.



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