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22 November 2016

CYBG PLC

Preliminary Announcement of Annual Results 2016

CYBG has today released its preliminary results for the year ended 30 September 2016.

A copy of the announcement is available at www.cybg.com and is attached

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CYBG PLC is registered in England and Wales (company number: **09595911**) and as a foreign company in Australia (**ARBN 609 948 281**) and has its registered office at 20 Merrion Way, Leeds, West Yorkshire LS2 8NZ

CYBG PLC

PRELIMINARY RESULTS

2016

YEAR ENDED 30 SEPTEMBER 2016

Registered number 09595911 (England and Wales)
ARBN 609 948 281 (Australia)

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(Formerly known as Pianodove PLC)

22 November 2016

Preliminary Announcement of Annual Results

For the year ended 30 September 2016

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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 personal and SME customers through retail branches, Business Banking centres, direct and online banking 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 forward looking statements disclaimer can be found on page 119

Strong progress in delivering our strategic targets

Maiden annual results show improved financial performance, with growth and momentum across business including enhanced customer experience

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- Delivered first statutory profit before tax in 5 years £77m (FY2015 loss of £285m)
  - with 9% increase in operating profit before impairment losses (£260m; FY2015 £237m)
  - 39% increase in underlying profit before tax (£221m; FY2015 £159m)
  - statutory loss after tax (£164m; FY2015 loss £229m) driven by legislative changes affecting accounting treatment of deferred tax asset

- Strong loan and deposit growth across business
  - 6.2% underlying growth in deposits across Retail and SME
  - 4.7% loan growth
  - 6.5% growth in mortgages
  - Core SME book grew 6.1%. Over £2.2 billion of new loans and facilities granted, 15% up on FY2015

- Delivered on key financial metrics:
  - Net Interest Margin (NIM) stable – 226 bps, 3 bps increase vs FY2015
  - Cost reduction programme on target – £729m underlying costs, 4% ahead of initial IPO guidance
  - Well capitalised - CET1 ratio remains strong at 12.6%, consistent with guidance

- Medium term targets updated in September 2016 – better and faster:
  - Double digit Return on Tangible Equity (RoTE) by FY2019 (previously FY2020)
  - Cost-to-Income Ratio (CIR) 55%-58% by FY2019 (previously below 60% by FY2020)
  - Loan growth mid-single digit per cent compound annual growth rate (CAGR) to FY2019

- Focused on our customers
  - customer experience improved with enhancements in digital platform
  - launch of B, delivering improved customer advocacy (NPS: +47)
  - volume of complaints down 41%

- £350m investment programme to FY2018, to
  - improve customer experience,
  - drive efficiency, and
  - support the continued roll out of our omni-channel model

Jim Pettigrew, Chairman CYBG PLC, commented:

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

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 process and deliver a superior customer experience.

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 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."

David Duffy, Chief Executive Officer CYBG PLC, commented:

"In our first year as a Plc, CYBG has delivered on our promises to our customers and shareholders, building strong foundations for our future growth and positive momentum going into 2017.

Our Annual Results show a strong financial performance, with underlying profit up 39% and the first statutory profit before tax in 5 years through robust growth in mortgages, SME lending and deposits, supported by our ongoing cost reduction programme.

We are investing in our future, with an investment programme in the next 2 years of over £350m in part to unlock the potential of CYBG's digital platform which will drive improvements in our customer experience and distribution capabilities.

As the only true full service, challenger bank of scale, we are perfectly placed to disrupt the status quo in the UK banking market."

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CYBG will be hosting a presentation for analysts and investors on the preliminary results for the year ended 30 September 2016 at its offices at 15 Floor, 122 Leadenhall Street, London EC3V 4AB, starting at 08:30 GMT today (19:30 AEST). The meeting will be webcast live and 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 Local	+44 (0) 20 3003 2666
Australia Local (Melbourne)	+61 (0) 3 9008 6206
Australia Local (Sydney)	+61 (0) 2 8014 9383
Australia Toll Free	1 800 681 584
USA Local (New York)	+1 212 999 6659
USA Toll Free	1 866 966 5335

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

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

The information contained within this announcement is deemed by the Company and its subsidiaries (the "CYBG 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.

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Business and financial review

Key performance indicators [1]:

12 months to:	30 Sep 2016	30 Sep 2015*
Profitability:		
NIM [1]	2.26%	2.23%
Underlying return on tangible equity (ROTE)	5.2%	5.1%
Underlying cost to income ratio	74%	75%
Underlying return on assets	0.45%	0.35%
Underlying basic earnings per share (EPS)	16.2p	14.3p
Statutory ROTE	(7.2)%	(10.3)%
Statutory cost to income ratio	88%	120%
Statutory return on assets	(0.42)%	(0.59)%
Statutory basic earnings per share	(22.5)p	(28.7)p
As at:	**30 Sep 2016**	**30 Sep 2015**
Asset Quality:		
Bad and doubtful debt charge to average customer loans	0.09%	0.21%
90+ days past due (DPD) to customer loans	0.50%	0.50%
Gross impaired assets to customer loans	0.77%	0.91%
Specific provision to gross impaired assets	30.8%	39.2%
Total provision to customer loans	0.79%	0.93%
Indexed loan to value (LTV) of mortgage portfolio	54.3%	55.3%
Regulatory Capital [2]**:**		
CET1 ratio	12.6%	13.2%
Tier 1 ratio	15.0%	15.7%
Total capital ratio	18.2%	18.9%
Leverage ratio	6.8%	7.1%
Funding and Liquidity:		
Loan to deposit ratio (LDR)	112%	109%
Liquidity coverage ratio (LCR)	140%	131%
Net stable funding ratio (NSFR)	124%	120%

* As explained further in note 1: Basis of preparation, the results shown for the year ended 30 September 2016 comprise the results of CYBG PLC consolidated with those of its subsidiaries. The comparative figures provided are those of the CYB Investments Limited Group (CYBI).

(1) For a definition of each of the Key Performance Indicators, refer to the Glossary.

(2) The capital ratios include unverified profits. Comparative disclosures have been amended to conform to the current period's presentation.

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Chief Executive's review

Delivering on Strategic Objectives

Our strategy is simple – drive shareholder returns through sustainable customer growth, improved efficiency and capital optimisation underpinned by a strong culture of risk and control.

This will be achieved by a cultural transformation of our business, and the simplification and streamlining of operations and processes to enhance productivity.

Underpinning the Group's strategy is a balanced and controlled approach to the management of risk. The principles of the Group's approach are to firmly embed a strong risk culture across the Bank. The fair treatment of customers is central to the delivery of this, as is managing the Group's risk framework within clearly defined risk appetite measures which set the context for the strategic plan.

We delivered 6.5% growth in mortgages in 2016, and saw growth in our SME book for the first time in four years, with over £2.2bn of new loans and facilities for SMEs made available, and continued growth in current accounts. We have also delivered on key financial metrics with a stable net interest margin and costs running below initial expectations.

We have already begun the process of streamlining our operating model, while continuing to invest in delivering a better service to our customers. We have identified 22 key processes or customer journeys where we see great opportunity to simplify, introduce more automation and digitise. We are moving the business towards being more focused on customers, being more commercial and more accountable.

Sustainable customer growth

Our customers are right at the heart of our strategy and we have been laying the foundations for a truly seamless service – our digitally enabled omni-channel strategy. We are moving to a model where customers can interact with us through whichever channel they choose – online, mobile, tablet, phone, branch – whenever they want and in a seamless way. We've built a new digital platform to enable this, and the first service we've launched is B, developed in response to direct feedback from our customers. It has intuitive and intelligent features such as "savings pots", "financial projections" and a unique timeline of transactions on all accounts to help customers in budgeting, saving and managing their finances. Initially offering a current and savings account and a debit card, B was successfully launched in May, attracting both new and existing customers. Of initial account openings, 63% were by customers aged under 45, and c.30% in our target segment of younger, more affluent customers (around a third higher than the proportion in our existing base). B customers are also more engaged, with a +47% net promoter score, so more likely to recommend the B account to friends and family.

B's functionality will be developed further in 2017 with the launch of a credit card and development of a B for Business proposition to help small businesses manage their finances.

Our branch network remains a key element of our omni-channel approach, and this year we announced changes to the network reflecting the evolving patterns in customer usage. A significant number of branches will extend their opening hours, opening on Saturdays, ensuring investment is diverted to the areas where demand is growing. A programme of refurbishments, relocations, co-locations, concept branches and digital development is ongoing, as our network adapts to customers changing preferences. During the year we maintained our momentum in the mortgage sector, with above market growth of 6.5%. We saw a change in mortgage origination mix, as expected, with a higher proportion of owner occupied mortgages compared to buy-to-let (BTL) than in 2015, despite very strong BTL volumes in our second quarter in advance of the changes to stamp duty.

Reflecting the hard work of colleagues across the Bank and a commitment to delivering a superior experience to customers, over the last 12 months, Clydesdale and Yorkshire Banks collected 35 accolades, of which 25 were for first place in their respective category. These included:

Winning Best First Time Buyer Mortgage Provider and Best Personal Loan Provider at the Moneynet awards; achieving "outstanding" ratings for our 2 and 5 year fixed mortgages and Gold MasterCard 0% purchase offer from Moneyfacts; Yorkshire Bank winning Best Regional Lender at the Your Mortgage awards; and winning Scottish Volunteering Team and Scottish Employee Volunteer of the Year Awards at the Business in the Community Scotland Awards 2016.

In SME, building on our strong origination performance last year we saw growth in the total loan book for the first time in four years, with gross new loans and facilities up 15% year on year.

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Chief Executive's review (continued)

We also continued to grow our deposit base, with strong underlying growth of 6% year on year and at a lower cost vs FY2015.

We have much more to do to create a truly integrated, offering for our customers and continue to align our investment and approach to emerging customer needs and commercial and statutory requirements and imperatives based on data analytics and customer economics. We have solid plans in place to develop a truly omni-channel model and the focus is now on delivery.

Efficiency

We are making good progress in creating the right cost structure for our bank. Our underlying cost to income ratio of 74% is still too high, but has improved from last year (2015: 75%). As a management team we have already taken action with underlying operating and administrative expenses for 2016 of £729m (4% below the initial expectations we gave during our IPO), as a result of a number of measures to reduce the cost base, including reduced standalone costs vs. initial expectations, the closure of 27 branches and a reduction in core FTEs. While our core employee numbers fell to below 6,500 by the end of the year, the reduction of around 500 principally came from managing vacancies and attrition; 150 also came from a voluntary severance scheme for senior grade staff, which is part of our programme to simplify our organisational structure.

We recognise that the business can be run more efficiently, and we updated our medium term targets in September to deliver £100+m of cost savings by 2019, and an underlying cost base in that year below £630m. We have a structured approach to cost reduction, built on the progress made this year, with clear accountability for delivering the programme. We also view lower costs from a customer, as well as a shareholder, perspective and will ensure that the business will still be able to support our growth ambitions, and that our initiatives to reduce costs are aligned with our risk appetite.

There are four areas of focus within our cost reduction programme:

1. *Customer Banking transformation* is expected to account for around 25% of cost savings, through optimising our branch network, accelerating transaction activity to digital self-service and improving productivity in the front line. This will lead to fewer people and a smaller number of branches as customers change the way they bank.
2. *Improved customer service* - We have identified 22 key customer journeys that will be optimised end-to-end through simplification and automation. We are also creating a platform for the future digitisation of processes, a key enabler of our omni-channel model, which will support our growth ambitions through an enhanced customer experience. This area is expected to account for around 15% of cost savings.
3. *Right model* - this addresses how we organise ourselves, rightsizing of our organisational support functions so that they are smaller and more efficient and targeting a maximum of six organisational layers. We will also change how we deliver large investment programmes, reducing the cost of investment. This area is expected to account for around 20% of cost savings.
4. *Getting more for less* will improve how we procure services from third parties, the suppliers we use and the value we receive. We will implement a comprehensive supplier contract review, and enhance our procurement capability to deliver a greater than 10% reduction in our current 3rd party spend of around £300m. We will take steps to improve the management of our capital investment profile, with a framework in place to ensure cost savings are sustained. These actions will create a change in "cost culture" within our business and deliver around 40% of our targeted savings.

We anticipate that the cost to deliver these initiatives will be c. £200m pre-tax, with £45m already incurred in FY2016 and this is included within our CET1 guidance.

Capital optimisation

We have begun discussions with the Prudential Regulation Authority (PRA) and have a detailed programme of work in flight to progress the adoption of IRB for calculation of credit risk capital. Moving to IRB will improve our competitive positioning, bring a stronger alignment of risk appetite and strategy and also reduce the intensity of our risk weighted assets (RWAs) and potential future bail-in debt requirement (MREL). Our initial focus is firstly on achieving IRB accreditation for our mortgage portfolio, which we currently anticipate to be during FY2018, subject to regulatory approval. Our subsequent focus will be IRB treatment of other retail asset portfolios and the SME book, with the remainder of the bank moving to IRB approximately one year later.

Financial performance

We have delivered on our key financial targets in 2016. Underlying profit on ordinary activities before tax increased to £221m from £159m in the prior year, driven by higher operating income and lower bad debt charges, with broadly flat operating expenses compared to FY2015, despite the additional costs of being a standalone business.

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Chief Executive's review (continued)

We remain focused on sustainable, prudent growth and are well positioned in both the retail and business banking segments in which we operate. Customer loans grew by 4.7% and asset quality remains strong. The mortgage book grew by 6.5% year on year to £21,836m and owner occupied mortgages accounted for around 60% of new business flows. Front book yields declined broadly in line with swap rates, used to price fixed rate mortgages, which accounted for around 90% of new business written in the year.

Our core SME book, which was £6,358m at 30 September, grew by 6.1% and we continue to run-off lower yielding assets, with our non core book reducing by £270m in the period, supporting overall SME yields. New loans and facilities totalled £2,223m this year, an increase of 15% vs 2015, with average yields on the front book of 351bps continuing to be above average yields on the back book (321bps).

The loan impairment charge as a proportion of gross average balances was 9 bps (2015: 21 bps), reflecting strong asset quality underpinned by our prudent underwriting standards.

We have continued to see growth in current account balances. Overall customer deposits grew by 2.5% during the year, with strong underlying growth offset by management actions to optimise the mix, pricing and liquidity value of the deposit base, which included the run off of large highly liquid corporate deposits. Excluding these actions underlying deposits grew by 6.2%.

We also re-priced our ISA offering in March 2016, while still remaining competitive in the market, which in part helped reduce our overall cost of deposits to 72bps from 78bps in FY2015 and will continue to benefit funding costs next year.

NIM was 226bps, an increase of 3 basis points compared with FY2015 and in line with our guidance of broadly stable. Pressure on asset yields was offset by balance sheet action on liabilities, including the re-pricing of savings products and run off of non-relationship corporate deposits with low liquidity value.

Our funding position remains strong. The loan to deposit ratio (LDR) increased from 109% to 112% due to growth in customer lending combined with a managed reduction in short term corporate deposits. This remains well within our FY2016 target of <115%. The Group's CET1 ratio remained robust at 12.6%, notwithstanding the impact of restructuring costs in the year and volatility in the pension scheme.

Against a backdrop of a challenging economic and regulatory environment, we will maintain appropriate risk appetite for lending, a prudent approach to funding and margin dynamics, and a strongly capitalised balance sheet

Economic and regulatory environment

The economic and regulatory environment is challenging and we will maintain appropriate risk appetite for lending, a prudent approach to funding and margin dynamics, and a strongly capitalised balance sheet. This will be done while ensuring we continue to deliver on our overarching principle of treating all of our customers fairly.

Since the EU referendum vote we have seen a limited impact on our business. The mortgage pipeline remains robust whilst our pipeline for SME lending is currently higher than at the same time last year. Clearly the EU referendum vote means a more complex economic and market environment in the future and as negotiations between the UK and EU progress we will monitor developments, retain our flexibility, and react accordingly. As set out at our capital markets day in September, we expect and are planning for a slowdown in the economy, with GDP between 1% - 2% over the next 3 years and unemployment increasing moderately to 5%- 6%. The current prolonged period of low interest rates, with the Bank of England (BoE) base rate at 25 bps following a further 25 bps reduction in August, has created challenges and put downward pressure on margins. The BoE Term Funding Scheme should help to offset some of this pressure by providing low cost funding, and our planning assumption is for 0% base rates until FY2020.

We welcome the measures taken by the Financial Policy Committee of the BoE to support lending to UK businesses and households, by reviewing capital levels including the counter cyclical buffer. This creates additional capacity, subject to customer demand and our normal risk appetite criteria, to make over £2 billion of new mortgage loans or nearly £1 billion of new SME loans.

The regulatory environment continues to evolve, with consultations and new guidance emerging from the Basel Committee, as well as the PRA and Financial Conduct Authority (FCA).

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Chief Executive's review (continued)

We continue to make progress on resolving legacy conduct issues. As part of our half year report at 31 March, we determined that a further charge of £450m was required to deal with expected future costs in relation to Payment Protection Insurance (PPI), incorporating the Group's estimate of the impact of CP 15/39 and a reassessment of the costs of processing cases and the impact of experiential adjustments. Only 9.7% of the charge impacts the Group's income statement (£44m) as a result of the conduct indemnity provided by National Australia Bank (NAB).

We welcome the FCA's statement as part of its further consultation (CP 16/20) that the package of proposals on PPI complaints laid out in CP 15/39 should be taken forward, albeit with the deadline for complaints now likely to be the end of June 2019. We look forward to the rules and guidance concerning the deadline, the consumer communications campaign fee, and PPI complaints and Plevin, being published by the end of December 2016. In advance of this date, reflecting our current experience and expectations, we have not made any further changes to existing unutilised provisions related to PPI. We consider that the total cover remaining of £1.5 billion (unutilised provisions and conduct indemnity) is sufficient to cover the costs of dealing with all legacy conduct matters, including PPI.

People

The ability of the Bank to execute its strategic plan is predicated on ensuring that the appropriate talent, capabilities and experience are in place throughout the organisation. This starts with the Board and the Executive Leadership Team.

The Board has been further strengthened, with Clive Adamson, David Bennett, Paul Coby, Fiona MacLeod and Tim Wade appointed as independent Non-Executive Directors, complementing the Board's expertise and governance oversight. I have reorganised and strengthened the Leadership Team for better individual and collective accountability, and created the right mix of experience that we need to meet forthcoming challenges.

- Fergus Murphy joined the bank as Products Director in January, with over 20 years of experience in financial services, including as Director of Corporate and Institutional Banking at Allied Irish Banks (AIB).
- Gavin Opperman joined as Director of Customer Banking in December, with a 20 year career at Barclays Group in Asia, and most recently Regional Head of Consumer Banking at Standard Chartered.
- Kate Guthrie joined as Group Human Resources Director in January, with over 30 years of domestic and international HR experience, most recently spending more than a decade at Lloyds Banking Group.
- Mark Thundercliffe joined as Chief Risk Officer from HSBC in September, where he had management and oversight of risk for HSBC's retail banking and wealth management businesses in 18 countries including the UK, Europe, Middle East and Africa.
- Enda Johnson was appointed to the executive team in June as Director of Corporate Development and Stakeholder Engagement. Before joining CYBG in 2015, Enda was Head of Corporate Affairs & Strategy at AIB.

In addition, we have made a number of appointments at senior levels across the organisation, as we seek to deepen our talent and capabilities. Key to our success will be the continued development in the strength and capability of our leadership population.

As we begin to transform our culture to create a high performance, customer centric bank, the results from our employee engagement survey in June were encouraging. Our engagement score of 79% is an improvement on last year and 2 percentage points above the UK financial services norm. Our advocacy score (confidence in recommending the Bank to friends and family) increased by 10 percentage points to 70% and 92% of our people understand how the work they do contributes to the achievement of the Company's goals and objectives. Given the significant amount of change in the Group over the past 12 months, these results are a positive indication of where we are on our journey.

We aim to create a high performing, customer centric organisation and drive accountability and responsibility, alongside appropriate reward structures. Key to our progress is the engagement and commitment of all of our people. To support this we have introduced an integrated communications strategy to assist in the delivery of our key strategic priorities. We have also undertaken a comprehensive review of reward, ensuring it is closely linked to the delivery of our strategy. We have simplified our performance management approach to ensure it fully aligns our colleagues' individual objectives with the strategic plan.

We want to be an employer of choice, engaging and inspiring our employees to build a bank of which they can be proud. We are building on our existing strengths and capabilities by hiring the very best talent. We are developing our cultural framework to ensure that we have a clear vision and values which form the foundation of our performance management framework with clear links to reward and with diversity and respect for difference built in.

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Chief Executive's review (continued)

We have a long tradition of supporting local communities. So far we have raised £5m for our chosen charity, Hospice UK, and have relationships with a number of local organisations such as Scotland's Charity Air Ambulance, Royal Zoological Society of Scotland and Cycle Yorkshire. Through our Spirit of the Community Awards, now in their 4th Year, we will donate £150,000 to 30 charities this year and we have an active volunteering programme. We encourage every employee to take two days paid leave for volunteering and provide Employee Volunteer Grants for those who volunteer in their own time. A fifth of our people donate to charity via Payroll Giving.

Outlook

In September this year we laid out our targets for the coming financial year ending 30 September 2017 which are detailed in the table below. The operating environment continues to be dynamic, the impact of Brexit is not yet fully understood, and our markets remain competitive.

Short Term Performance Targets

Metric	FY2016	FY2017e
NIM	2.26%	Broadly stable
Underlying costs	£729m	c. £690m-£700m
Loan growth	4.7%	Mid single digit %
LDR	112%	< 120% (1)
CET1	12.6%	12%-13% range

(1) Assuming participation in Term Funding Scheme.

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).

Updated Medium Term Targets

Metric	IPO targets	Updated guidance
CIR	Below 60% by FY2020e	55%-58% by FY2019e
Retail lending	Implied 8% CAGR to FY2020e	Mid single digit % CAGR to FY2019e
SME lending	Implied 4% CAGR to FY2020e	Mid single digit % CAGR to FY2019e
CET1	12%-13%	Unchanged
LDR	up to 115%	< 120% (2)
Dividend	Target modest inaugural dividend for FY2017; in time 50% payout of earnings (1)	Unchanged
RoTE	Double digit by FY2020e	Double digit by FY2019e

(1) After paying AT1 distributions.
(2) Assuming participation in Term Funding Scheme.

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.

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Chief Executive's review (continued)

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 2 year £350m investment programme.

David Duffy
21 November 2016

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Business and financial review (continued)

Summary of Group Results

The Group has delivered strong results in 2016:

- 9% growth in underlying operating profit
- 39% growth in underlying profit before tax to £221m
- Net interest margin up to 2.26% in line with guidance
- Underlying cost to income ratio reduced to 74%
- 6.5% growth in the mortgage book
- 6.2% underlying growth in customer deposits
- 6.1% growth in core SME lending
- Core Equity Tier 1 ratio of 12.6%
- Underlying Return on Tangible Equity broadly stable at 5.2%

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 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.

Key Performance Indicators are set out on page 3.

Underlying consolidated income statement

The consolidated income statement is presented on an underlying basis which includes adjustments to present items that the Group believes are non-recurring, or not otherwise indicative of the underlying performance of the business. As explained further in Note 1 Basis of Preparation, the results shown for the year ended 30 September 2016 comprise the results of CYBG PLC consolidated with those of its subsidiaries. The comparative figures provided are those of the CYB Investments Limited Group (CYBI).

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Business and financial review (continued)

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%
Total operating income	989	964	2.6%
Total operating and administrative expenses	(729)	(727)	0.2%
Operating profit before impairment losses	260	237	9.3%
Impairment losses on credit exposures [1]	(39)	(78)	50.2%
Underlying profit on ordinary activities before tax	221	159	39.2%
Conduct charges	(51)	(486)	
Restructuring expense	(45)	(17)	
Separation costs	(11)	(10)	
Net gain on capital and debt restructuring [2]	1	61	
Pension increase exchange gain	-	18	
Loss on impairment of intangible assets	(45)	(10)	
Gain on disposal of VISA share	7	-	
Statutory profit/(loss) on ordinary activities before tax	77	(285)	
Tax (charge) / credit	(241)	56	
Statutory loss for the year	(164)	(229)	

(1) 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).

(2) 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).

The Group made a statutory loss after tax of £164m in the current year which is 28% lower than the statutory loss after tax of £229m for the year to September 2015. The 2016 loss was primarily due to the write-off of deferred tax assets as a result of the enactment of Finance Bill 2016, reflecting the inherent uncertainty in the UK's approach to the taxation of Banking Groups.

The 2016 result also included a charge of £45m for restructuring and £45m for impairment of intangible assets. This impact was offset by lower conduct provisions driven by the impact of the Conduct Indemnity Deed with NAB.

Income statement analysis

Net interest income	2016 £m	2015 £m	2016 vs 2015 %
Interest income and similar income	1,101	1,110	(0.8)%
Interest expense and similar charges	(295)	(323)	(8.7)%
Total net interest income	806	787	2.4%

Net interest income increased by £19m (2.4%) from £787m to £806m. Gross interest income and similar income decreased in the year by £9m (0.8%) from £1,110m to £1,101m. Mortgage interest income grew due to the successful execution of our strategy to increase the size of the mortgage portfolio. The balance growth of 6.5% was well above system growth of 3.2% [1]. Interest income from SME lending fell marginally in the year due to lower average volumes reflecting the continued managed run-off of the non-core portfolio. SME lending returned to growth in the year driven by the core book which grew by 6.1%. Unsecured personal lending interest income also fell in the year as a result of the decline in both the size of the book and lower customer interest rates. The decline was largely driven by the personal loan book, in a highly competitive market environment, where for much of the year the returns on the overall book were unattractive to the Group.

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

Business and financial review (continued)

Gross interest expense reduced in the year from £323m to £295m. The main driver behind this is the reduction in average wholesale balances replaced by growth in higher quality and lower cost customer funding, in particular savings accounts. In addition to this there was a continuation of the managed reduction in term deposit costs as more expensive term deposits were replaced at cheaper rates with volumes remaining broadly flat.

Structural hedges are used to minimise the volatility on income related to customer deposits and the Group's capital. Balances are hedged with interest rate swaps and the tenor is based on the expected life of the liabilities. During FY2016, the notional size of the hedge increased to £14.4bn and covered approximately £8.3bn of non and low interest bearing liabilities, £2.7bn of administered deposits and £3.4bn of equity. Notional interest income from structural hedging was £86m (2015: £79m).

Non-interest income	2016 £m	2015 £m	2016 vs 2015 %
Gains less losses on financial instruments at fair value	9	2	Large
Fees and commission	151	144	4.5%
Net fair value movement on investment properties	(1)	(1)	(36.9)%
Other income	24	32	(25.6)%
Total underlying non-interest income	183	177	3.4%
Net gain on capital and debt restructuring	1	63	99.1%
Gain on disposal of VISA share	7	-	Large
Total statutory non-interest income	191	240	(20.7)%

Non-interest income reduced by £49m (20.7)% from £240m to £191m. The key driver in the reduction was the net gain on capital and debt restructure in 2015 which was not repeated in 2016. Underlying non-interest income increased from £177m to £183m in 2016. Fees and commissions across the industry remain under pressure and have been impacted by the impact of European Interchange Fee Regulation which came into full effect from December 2015. Business lending non-interest income fell in the year in line with average balances, and also reflected the impact of the fee-free campaign for new Business Current Account customers. Fees & commission income benefitted by £13m following the transfer of the UK intermediary business from NAB to CYBG on 30 September 2015. This income primarily relates to commissions from third parties on the sales of insurance products to CYBG customers. The other income streams were broadly in line with the prior year.

Operating and administrative expenses	2016 £m	2015 £m	2016 vs 2015 %
Personnel expenses	280	282	(0.6)%
Depreciation and amortisation expense	88	83	6.0%
Other operating and administrative expenses:	361	362	(0.2)%
of which operating lease rentals	30	32	(6.4)%
of which other occupancy charges	38	38	(0.1)%
of which related entity charges	5	18	(73.9)%
of which other operating and administrative expenses	288	274	5.2%
Total underlying operating and administrative expenses	729	727	0.2%
Conduct charges	51	486	(89.5)%
Restructuring expense	45	17	Large
Separation costs	11	10	4.6%
Pension increase exchange gain	-	(18)	(100.0)%
Loss on impairment of intangible assets	45	10	Large
Loss on capital restructure	-	2	(100.0)%
Total statutory operating and administrative expenses	881	1,234	(28.6)%

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Business and financial review (continued)

Statutory operating and administrative expenses decreased by £353m (28.6%) driven by lower charges of a one-off nature, in particular lower conduct charges principally reflecting the impact of the Conduct Indemnity Deed. Total underlying expenses were broadly flat and moved from £727m in FY2015 to £729m in FY2016, reflecting an improvement versus the IPO guidance of £762m. This was delivered by strong cost control in the second half of the year. There was a reduction in personnel expenses due to the continued reduction in FTEs over the period, despite the non-recurrence of a bonus write back credit of £9m recognised in 2015. During the year CYBG ran a voluntary severance programme which led to 150 Full Time Equivalents (FTEs) leaving from across the business. Core FTEs at 30 September 2016 were 6,313[1], being 535 lower than prior year.

The benefits from a reduction in related entity charges of £13m was offset by additional ongoing costs from the operation of the Group as an independent, listed PLC of £38m. This increase has been mitigated by a stringent approach to cost control across all categories.

(1) Core FTEs excludes FTEs who are involved in legacy conduct remediation activities.

	2016 £m	2015 £m	2016 vs 2015 %
Impairment losses on credit exposures	**(39)**	(78)	(50.2)

Impairment losses on credit exposures have reduced by £39m (50.2%) from £78m to £39m. The benign credit environment, prudent underwriting standards and controlled risk appetite have all contributed to the £28m (30.4%) reduction in the level of specific provisions. The reduced impairment charge also reflects write backs from provisions previously recognised of £18m (2015: £12m) which incorporates an £8m benefit from the sale of previously written off unsecured retail debt (2015: £nil). There was a net increase in the level of collective provision of £13m (9.4%) reflecting the growth in customer loans and the migration of previously categorised loans to the performing portfolio which on returning to performing attract a collective provision charge. Increased collective provision levels also reflect some downward pressure on the Oil & Gas and Agriculture sectors which have had a softening effect on the portfolios.

Tax (expense)/credit	2016 £m	2015 £m	2016 vs 2015 %
Tax expense on underlying profit	**(44)**	(24)	80.3%
Other tax expense	**(197)**	80	Large
Tax (expense) /credit on statutory profit / (loss)	**(241)**	56	Large
UK Corporation tax rate	**20.0%**	20.5%	
Effective tax rate – underlying profit	**20.2%**	15.2%	
Effective tax rate – statutory profit	**313.3%**	19.8%	

The statutory effective tax rate of 313.3% is driven by the write off of deferred tax assets on losses.

The material deferred tax charge is largely a result of the derecognition of tax losses valued at £237m following changes to tax legislation enacted in September 2016, which further restricted banks' ability to offset tax losses. Further detail is provided in Note 23.

The underlying profits of the Group were taxed at an effective rate of 20.2%.

Summarised consolidated average balance sheet

Balance sheet (average balances)	2016 £bn	2015 £bn	2016 vs 2015 %
Total assets	**39.0**	38.7	0.9%
Interest earning assets	**36.3**	35.8	1.3%
Customer loans [1]	**29.4**	28.2	4.2%
Customer deposits [2]	**26.3**	25.1	4.6%

(1) 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.

(2) Customer deposits include both interest and non-interest bearing accounts and deposits.

Net interest margin analysis

	2016			2015		
	Average balance	Interest income/ (expense)	Average yield/ (rate)	Average balance	Interest income/ (expense)	Average yield/ (rate)
	£m	£m	%	£m	£m	%
Interest earning assets:						
Mortgages	21,261	672	3.16%	19,576	647	3.31%
SME lending [1]	6,904	263	3.80%	7,339	278	3.78%
Unsecured personal lending	1,216	119	9.76%	1,274	138	10.83%
Liquid assets	6,001	31	0.51%	6,781	36	0.53%
Due from other banks	680	2	0.30%	-	-	-
Due from related entities [2]	195	1	0.37%	810	3	0.40%
Swap income / other	-	13	-	-	8	-
Total average interest-earning assets	36,257	1,101	3.04%	35,780	1,110	3.10%
Total average non-interest-earning assets	2,759			2,928		
Interest bearing liabilities:						
Current accounts	10,701	(11)	(0.10)%	10,416	(12)	(0.11)%
Savings accounts	8,034	(63)	(0.78)%	7,171	(54)	(0.75)%
Term deposits	5,397	(114)	(2.11)%	5,500	(129)	(2.35)%
Other wholesale deposits	70	(1)	(0.95)%	96	(1)	(0.85)%
Debt securities in issue	4,163	(87)	(2.11)%	3,868	(82)	(2.11)%
Due to other banks	977	(8)	(0.84)%	978	(5)	(0.54)%
Due to related entities [2]	303	(11)	(3.54)%	1,956	(40)	(2.07)%
Total average interest-bearing liabilities	29,645	(295)	(1.00)%	29,985	(323)	(1.08)%
Total average non-interest-bearing liabilities	5,906			5,693		
Total average equity attributable to ordinary equity holders	3,465			3,030		
Net interest margin	2.26%			2.23%		

[1] Includes deferred fee income and loans designated at FVTPL.

[2] The average for the year 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.

The net interest margin increased by 3bps to 2.26% (2015: 2.23%). This increase was predominantly driven by the Group's management of its interest bearing liabilities.

Lending yields reduced in the period driven by competition and swap rate movements, resulting in a broadly flat customer margin. Liquid assets remained comfortably above the levels required by the Regulator and the Group's overall liquidity asset rule (OLAR).

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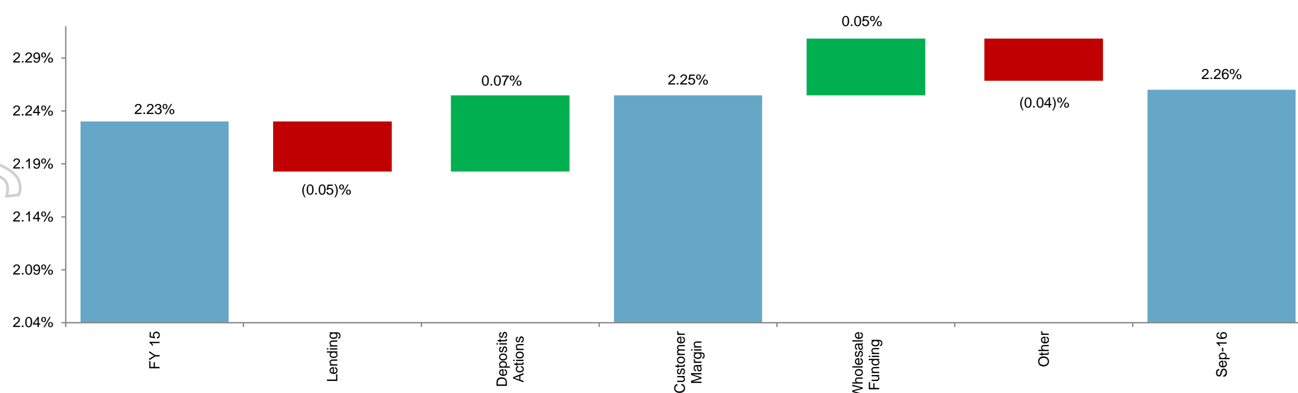
Chart 1: NIM Waterfall



Lending margin declined by 5bps, driven by lower volumes and pricing in unsecured personal loans as price competition in the market remained intense coupled with an increase in promotional 0% interest rate balances on credit cards. Gross mortgage yields also reduced as mortgage market pricing mirrored the reduction in weighted average swap rates which reduced from 1.17% in FY2015 to 0.97% in FY2016 while mix also had an impact on the margin as the balance of higher margin SVR mortgages continued to fall. These reductions were partially offset by the benefits of growth in core SME lending and the continued run off of lower yielding non-core SME assets.

The increase in the deposit margin of 7bps reflected the impact of the run-off of non-core corporate deposits (4bps), which also led to lower required levels of low yielding liquid assets, and the managed reduction of relatively higher cost term deposit balances (4bps) along with the benefits of repricing activity in the year. This was partly offset by an increase in savings margins due to higher Cash ISA balances recruited in the second half of FY2015.

Wholesale funding costs have driven 5bps of NIM benefit as a result of a reduction in balances and an improved mix of wholesale liabilities.

Customer loans as at 30 September [1]	2016 £m	2015 £m
Mortgages	**21,836**	20,504
SME lending		
- Core	**6,358**	5,992
- Non-core	**800**	1,070
Unsecured personal lending	**1,153**	1,218
Total customer loans	**30,147**	28,784
Loans and advances to customers	**29,396**	27,687
Other financial assets at fair value	**747**	1,093
Due from customers on acceptances	**4**	4
Total customer loans	**30,147**	28,784

(1) Spot balances excluding accrued interest receivable, provisions for impairments and unearned income

Customer loans increased by £1,363m (4.7%) from £28,784m at 30 September 2015 to £30,147m at 30 September 2016, driven by strong growth in mortgages. SME lending balances increased year on year, with strong growth in the Core SME book being partly offset by the continued run-off of the non-core book. Unsecured personal lending reduced in the period reflecting the competitive market environment for fixed rate personal loans, partly offset by a return to growth in credit cards.

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Business and financial review (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 6.5% from £20,504m at 30 September 2015 to £21,836m at 30 September 2016. This was higher than system growth of 3.2%[1]. Gross origination in the year was £4,914m. The growth in the year reflected the strong performance in and our commitment to the intermediary market, alongside continued investment in the branch network

Growth slowed in the second half of the year which was in part due to the impact of changes to Stamp Duty on BTL properties on 1 April 2016, which brought forward demand from the second half to the first half. Whilst in the second half the Group continued to grow above market rates, the overall market slowed, this has been attributed by some external commentators to the impacts of the UK referendum decision to withdraw from the European Union (EU).

The stock portion of BTL mortgages increased from 31% as at September 2015 to 34% as at September 2016 and included the impact of the surge in demand relating to the changes in Stamp Duty.

Growth continues to be predominantly through fixed rate mortgages, which accounted for 93% of mortgages drawn in the year.

SME lending

SME lending grew in the year from £7,062m at 30 September 2015 to £7,158m at 30 September 2016. The SME lending portfolio has been revitalised and the core book has returned to growth. The core book grew at 6.1% versus system growth of 2.2%[2] increasing from £5,992m at 30 September 2015 to £6,358m at 30 September 2016.

The Group continues to run off the non-core portfolio which has fallen from £1,752m at September 2014 to £800m.

Origination activity improved in the year with a 15% increase in volumes of loans and facilities granted and the book is well diversified across the product portfolio.

Unsecured personal lending

The Group's unsecured personal lending portfolio comprises credit cards, personal loans and overdrafts originated through branches or by way of digital or other direct channels. Unsecured personal lending balances decreased by 5.4% from £1,218m at 30 September 2015 to £1,153m at 30 September 2016. This was primarily due to reduced appetite for personal loan volumes via our digital platform, after competitive pressures reduced margins to unattractive levels. This impact was offset by an increase in origination via the branch network and direct (telephone) channel in the year. Credit card balances grew slightly in the year primarily as a result of competitive offers available to customers for the majority of the year.

(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.

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Customer deposits as at 30 September [1]	2016 £m	2015 £m
Current accounts	13,248	12,982
Variable rate savings accounts	8,240	7,790
Fixed rate term deposits	5,500	5,483
Other wholesale deposits	12	94
Total customer deposits	27,000	26,349
Due to customers	26,954	26,282
Other financial liabilities at fair value	46	67
Total customer deposits	27,000	26,349

(1) Spot balances excluding accrued interest payable.

Customer deposits increased by £651m (2.5%), from £26,349m at 30 September 2015 to £27,000m at 30 September 2016, primarily due to an increase in current accounts and variable rate savings accounts.

Current accounts

Funding provided by current accounts increased by £266m (2.0%) from £12,982m at September 2015 to £13,248m at September 2016. There have been positive impacts from the £150 switching offer which was in place in the first half, the 25 month fee free offer on Business current accounts (BCAs), as well as the launch of 'B' (spot balance as at Sep-16: £42m). These were offset by the managed run-off of £740m non-core corporate deposits. Excluding this, underlying current account growth was 8.2%.

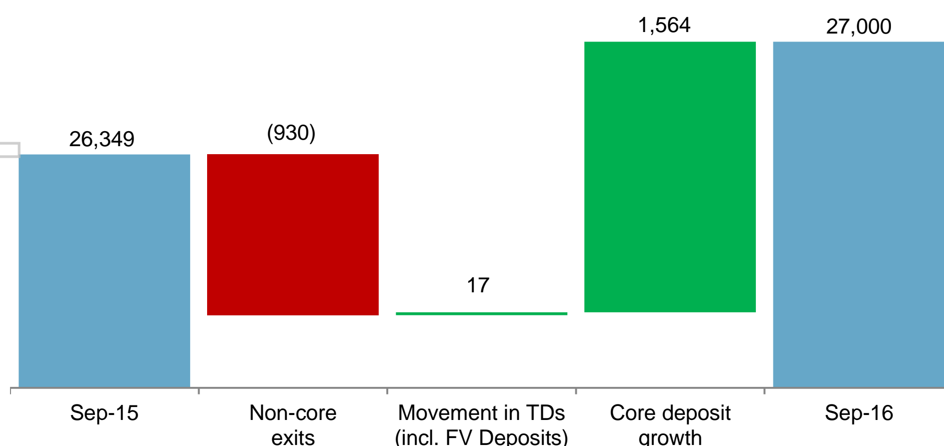
Savings accounts

Variable rate savings account balances increased by £450m (5.8%) from £7,790m at 30 September 2015 to £8,240m at 30 September 2016 primarily driven by a substantial increase in ISAs due to attractive pricing, with additional benefit from strong early performance on 'B' savings (spot balance as at Sep-16: £151m). This was in part offset by outflows as a result of ratings-sensitive customers exiting in response to credit rating changes following separation from NAB.

Fixed rate term deposits

Fixed rate term deposits increased by £17m (0.3%) from £5,483m at 30 September 2015 to £5,500m at 30 September 2016, driven by subdued market demand and in line with the Group's ongoing strategy to proactively run-off the higher rate part of the book originated in 2012.

Chart 2: Deposits Waterfall (£m)



Although total customer deposit balances have shown modest growth in the year, there was strong underlying growth within core customer deposits.

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Offsetting this was the active run-off of £740m of non-core corporate deposits and further outflows of £190m, of which £162m relates to savings, as a result of ratings sensitive customers exiting the bank following separation from NAB. The small net increase in term deposits incorporated the ongoing run-off of higher cost term deposits which in many cases had no other customer relationship.

Debt securities in issue as at 30 September [1]	2016 £m	2015 £m
Retail mortgage backed securities (RMBS)	3,208	3,031
Covered bonds	797	721
Subordinated debt	477	-
Related party [2]	-	382
Total debt securities in issue	**4,482**	**4,134**

(1) Spot balances excluding accrued interest payable.

(2) Lannraig note issuance to NAB are now included in RMBS as they have moved from related to third party following the demerger and IPO.

Debt securities in issue increased by £348m (8.4%) from £4,134m at 30 September 2015 to £4,482m at 30 September 2016. A new Lanark note of £750m was issued in August 2016 the first major issuance post Brexit reflecting the strength of the franchise. This was offset by redemption of the remaining outstanding principal on the USD800m Lanark 2012-2 1A, USD300m Lanark 2013-1A and £350m Lanark 2013-1B notes in line with the scheduled programme terms. Subordinated notes of £475m nominal were issued to NAB upon demerger and subsequently successfully re-marketed to external investors in September 2016.

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Business and financial review (continued)

Key Credit Metrics

	2016	2015
Impairment losses on credit exposures (£m)		
SME lending (including lease finance)	31	45
Retail lending	8	33
	39	78
Of which:		
Specific charge for impairment losses	25	73
Collective charge for impairment losses	14	5
	39	78
Impairment provisions on credit exposures (£m)		
SME lending (including lease finance)	157	168
Retail lending	58	62
	215	230
Of which		
Specific provision	64	92
Collective provision	151	138
	215	230
Credit risk adjustments held on loans at fair value (£m)		
SME lending	24	38
Of which		
Individually assessed credit risk adjustments	8	11
Collectively assessed credit risk adjustments	16	27
	24	38
Impairment (credits)/losses on loans held at fair value	(11)	(18)
Past Due and impaired assets (£m)		
90+ DPD assets	150	143
Impaired assets [1]	233	263
Asset Quality measures (%)		
90+ DPD plus impaired assets to customer loans	1.27%	1.41%
Specific provisions to impaired assets [2]	30.8%	39.2%
Net write-offs to Customer loans [3]	0.18%	0.35%
Total provision to Customer loans [4]	0.79%	0.93%
Total impairment charge to average Customer loans [5]	0.09%	0.21%

(1) Impaired assets for September 2016 and September 2015 includes £19m and £25m 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) Total impairment charge to average Customer loans includes loans held at fair value through profit and loss.

The Group's strategy to target selective areas for balance sheet growth particularly through mortgage origination has influenced the low impairment charge. High underwriting standards and a controlled risk appetite have resulted in a portfolio with strong asset quality which has, in turn, led to a low impairment charge to average customer loans ratio across all portfolios. Most asset quality measures improved in the period as the influence of a strong customer focused culture, prudent risk management and a stable UK economy took effect. Some economic pressure on the oil & gas and agriculture sectors has had a softening effect on the portfolios, evidenced by an increased level of collective provision. While the portfolio remains sensitive to economic shocks, broader based negative effects from Brexit have yet to be observed and prolonged economic stability underpinned by low interest rates and higher employment has supported customer confidence.

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Business and financial review (continued)

Retail asset quality remains strong with lower default rates and impairment losses observed across the period. The 'lower for longer' interest rate environment has sustained Customer confidence, supporting strong growth in the Mortgage portfolio and stable asset quality.

The level of impairment losses on credit exposures has reduced significantly in the period to September 2016 due to the lower levels of specific provision required, reflective of the reduction in the levels of defaulted and impaired lending. Stabilisation of asset values has also supported recoveries and write backs from provisions previously recognised.

The ratio of total provisions to Customer loans reduced by 14 basis points to 0.79% in the year to 30 September 2016 driven by the reduced levels of specific provision held and continued growth in the portfolio, particularly mortgages which have a lower provisioning requirement.

Supplementary Credit Risk Management Disclosures are provided from page 106.

Capital and funding	Capital change (bps)	CET1
Opening % 30 September 2015		13.2%
Underlying capital generated	123	
Absorbed by business growth	(75)	
AT1 distributions	(18)	
Core business - net capital generated	30	
Restructuring provisions	(21)	
Pension movements	(51)	
Conduct provisions	(26)	
Other	8	
Closing % 30 September 2016		12.6%

Whilst RWAs increased by £802m, and the Group was required to absorb short term volatility in the IAS19 pension position, underlying capital generation of 123bps, ensured the CET1 ratio remained robust at 12.6%.

The Group continues to have a strong funding and liquidity position and seeks to achieve an appropriate balance between profitability and management of liquidity risk, at an appropriate cost. The blended cost of deposits has reduced from 78bps to 72bps driven by re-pricing of more expensive term deposits. The overall blended cost of funding has reduced from 108bps to 100bps through the repricing of term deposits and a reduction in expensive wholesale funding principally from the Group's historical owner NAB which was repaid in advance of separation. The LDR increased from 109% to 112% due to growth in customer lending combined with a managed reduction in short term corporate deposits.

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 30 September 2016. This included a Pillar 2A requirement set at 5.7% of RWAs, 3.2% of which must be met by CET1 capital. In October 2016, the PRA revised the Group's Pillar 2A requirement to 4.6% of RWAs, 2.6% of which must be met by CET1 capital. The Capital Buffer Requirements include a Capital Conservation Buffer, Counter-cyclical Buffer and PRA Buffer. In March 2016 The Bank of England (BoE) Financial Policy Committee announced that from 29 March 2017 the Counter-cyclical Buffer will be set at 0.5% in the UK, and the PRA confirmed a one-off adjustment to the PRA Buffer to offset the impact, for no overall increase to the Group's capital requirements arising from this change. In response to the EU referendum vote, the BoE Financial Policy Committee withdrew the Counter-cyclical buffer to make more funding available to UK businesses and households. The reduction in the Group's counter-cyclical buffer was around £100m. In addition, in December 2015 the BoE announced that banks with less than £175 billion of assets will not be subject to Systemic Risk Buffer requirements.

Business and financial review (continued)

Capital position

In February 2016, concurrently with the demerger and IPO of the Group, a capital restructure was completed to simplify the Group's capital base and ensure that CYBG is the "single point of entry" for the purposes of Recovery and Resolution planning and MREL requirements. The Group repurchased £450m of AT1 and £475m of Tier 2 capital, and replaced this with new CRD IV compliant issuance of £450m AT1 (including an equity conversion mechanism) and £475m Tier 2 issued by the Group. The Group simultaneously downstreamed the proceeds in the same form to Clydesdale Bank PLC, with the only material difference being the loss absorption mechanism for Clydesdale Bank PLC which is a Permanent Write Down of the instrument not equity conversion. The repurchase took place at market value and this resulted in a net gain of £1m which was realised within the Group.

In September 2016 the AT1 and Tier 2 capital instruments were re-marketed by NAB. At 30 September 2016, NAB is no longer the holder of these instruments.

Capital optimisation

The Group is committed to securing IRB status. Discussions have begun with the PRA and a detailed programme of work is in flight to progress the adoption of IRB for calculation of credit risk capital. Moving to IRB will improve the Group's competitive positioning, bring a stronger alignment of risk appetite and strategy and also reduce the intensity of the Group's risk weighted assets and potential future bail-in debt requirement (MREL). Our initial focus is firstly on achieving IRB accreditation for the Group's mortgage portfolio which is currently anticipated to be during FY2018, subject to regulatory approval. The subsequent focus will be IRB treatment of other retail asset portfolios and the SME book, with the remainder of the bank moving to IRB approximately one year later.

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Business and financial review (continued)

Regulatory capital [1]

CET1 capital	2016 £m	2015 £m
Capital Instruments	88	223
Share premium account	-	670
Retained earnings and other reserves	2,673	2,097
Regulatory adjustments and deductions:		
Prudent valuation adjustment [2]	(7)	(5)
Intangible assets [3]	(256)	(265)
Deferred tax asset (DTA) relying on future profitability [4]	(35)	(273)
Cash flow hedge reserve	(66)	-
Defined benefit pension fund assets (net of deferred tax liabilities) [5]	-	(42)
	2,397	2,405
Tier 1 capital		
Additional Tier 1 (AT1) capital instruments	450	450
Total Tier 1 capital	2,847	2,855
Tier 2 capital		
Subordinated debt	474	460
Credit risk adjustments	151	138
	625	598
Total capital	3,472	3,453

(1) This table shows the capital position on a CRD IV "transitional" basis. As at 30 September 2015 this included grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA. These instruments were replaced and are fully compliant with CRD IV at 30 September 2016, accordingly the 30 September 2016 capital also reflects the 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.

(5) Under CRD IV, defined benefit pension fund assets shall be deducted from CET1 capital (net of deferred tax liability).

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Business and financial review (continued)

Risk-weighted assets [1]	2016 £m	2015 £m
Retail mortgages	7,998	7,526
SME lending	7,087	7,044
Other retail lending	915	951
Other lending	152	113
Other [2]	754	660
Credit risk	16,906	16,294
Credit valuation adjustment	286	206
Operational risk	1,623	1,589
Counterparty risk	214	138
Total risk-weighted assets	19,029	18,227

Capital ratios	2016	2015
CET1 ratio [3]	12.6%	13.2%
Tier 1 ratio	15.0%	15.7%
Total capital ratio	18.2%	18.9%

(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.

Reconciliation of statutory total equity to regulatory capital	2016 £m	2015 £m
Statutory total equity	3,211	3,443
Pension regulatory adjustments	-	(42)
Deductions from capital	(263)	(270)
Equity-based compensation reserve	-	(3)
DTA relying on future profitability	(35)	(273)
Cash flow hedge reserve	(66)	-
Regulatory Tier 1 capital	2,847	2,855

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Minimum Pillar 1 capital requirements	2016 £m	2015 £m
Credit risk	1,352	1,304
Operational risk	130	127
Counterparty risk	17	11
Credit valuation adjustment	23	16
Tier 1 regulatory capital requirements	1,522	1,458

Regulatory capital flow of funds	2016 £m	2015 £m
CET1 capital		
CET1 capital at 1 October	2,405	1,747
Share capital: ordinary share new issuance	-	350
Share for share exchange and nominal reduction	(135)	-
Share premium	(670)	670
Retained earnings and other reserves (including structured entities)	576	1,755
Prudent valuation adjustment	(2)	(3)
Intangible assets	9	(52)
DTA relying on future profitability	238	(50)
Defined benefit pension fund assets	42	(3)
Share capital reduction	-	(2,009)
Cash flow hedge reserve	(66)	-
	2,397	2,405
Tier 1 capital		
Tier 1 capital at 1 October	450	300
Capital instruments repurchased: Perpetual Capital Notes	(450)	-
Capital instruments issued: Perpetual Subordinated Contingent Convertible Notes	450	-
Capital instruments issued: AT1 Perpetual Capital Notes	-	150
	450	450
Total Tier 1 capital		
	2,847	2,855
Tier 2 capital		
Tier 2 capital at 1 October	598	1,260
Credit risk adjustments	13	3
Subordinated debt redemption	-	(665)
Capital instruments repurchased: Subordinated Debt	(475)	-
Capital instruments issued: Subordinated Debt	474	-
Removal of minority interest deduction on Subordinated Debt	15	-
	625	598
Total capital	3,472	3,453

Risk-weighted asset flow statement	£m
Risk-weighted assets at 1 October 2015	18,227
Book size growth / (reduction)	619
Book quality (improvement) / deterioration	183
Methodology and policy	-
Risk-weighted assets at 30 September 2016	19,029

Capital requirements for calculating RWAs	At 30 September 2016 Capital required £m	RWA £m	Exposure £m	At 30 September 2015 Capital required £m	RWA £m	Exposure (restated) £m
Central Governments or Central Banks	-	-	7,002	-	-	6,477
Regional Governments or Local Authorities	2	20	192	2	22	222
Public Sector Entities	-	5	13	-	3	3
Multilateral development banks	-	-	195	-	-	100
Financial institutions	19	234	1,344	18	222	818
Corporates	283	3,533	3,846	262	3,264	3,621
Retail	72	897	1,196	74	930	1,240
Secured by mortgages on immovable property	897	11,242	26,482	869	10,862	25,241
Exposures in default	33	408	340	34	427	356
Collective investments undertakings (CIU)	-	3	3	-	3	3
Equity exposures	1	11	9	1	16	10
Items associated with particularly high risk	1	15	10	-	-	-
Covered bonds	2	19	191	-	-	-
Other items	42	519	1,650	44	545	1,905
Total credit risk	1,352	16,906	42,473	1,304	16,294	39,996
Operational risk	130	1,623		127	1,589	
Counterparty risk	17	214		11	138	
Credit valuation adjustment	23	286		16	206	
	1,522	19,029		1,458	18,227	

The "Exposure" amounts disclosed above are post Credit Conversion Factors and pre Credit Risk Mitigation. Comparative disclosures have been restated to conform with the current period's presentation.

Leverage ratio	2016 £m	2015 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	2,397	2,405
AT1 capital	450	450
Total Tier 1	2,847	2,855
Exposures for the leverage ratio		
Total assets as per published financial statements	39,929	38,705
Adjustment for off-balance sheet items	1,982	1,998
Adjustment for derivative financial instruments	(399)	19
Adjustment for securities financing transactions (SFTs)	601	-
Other adjustments	(364)	(585)
Leverage ratio exposure	41,749	40,137
Leverage ratio	6.8%	7.1%

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External credit ratings

The Group (then CYBI) was rated by Standard & Poor's (S&P) and Fitch for the first time in 2015. Clydesdale Bank PLC as the main operating entity of the Group has been rated for over ten years. Upon demerger from NAB the ratings for CYBI were withdrawn and new ratings were published for the Group. S&P assigned a long-term credit rating of "BBB-" to the Group, two notches below that of Clydesdale Bank PLC, reflecting their non-operating holding company methodology. Fitch assigned an issuer default rating of "BBB+", in line with that of Clydesdale Bank PLC again reflecting their holding company methodology. The lower Fitch ratings in 2016 reflect the absence of any parental support uplift in rating.

The outlook for the Fitch and Moody's ratings is stable and on 3 October 2016 Fitch affirmed the current ratings of CYBG and Clydesdale Bank PLC. On 7 July 2016, as part of an industry wide exercise following the UK's EU referendum, S&P affirmed CYBG's ratings but revised the outlook from Stable to Negative. S&P stated "we could revise down the anchor for UK banks to 'bbb' from 'bbb+' over the next two years if prolonged uncertainty following the referendum weakens the macroeconomic outlook and economic resilience of the UK economy. The negative outlook on CYBG mirrors that of Clydesdale."

The Group and Clydesdale Bank PLC's long-term credit ratings are summarised below:

	Outlook as at 21 Nov 2016[(1)]	30 Sep 2016	30 Sep 2015
CYBG PLC			
Fitch	Stable	BBB+	A[(2)]
Standard & Poor's	Negative	BBB-	BBB[(2)]
Clydesdale Bank PLC			
Fitch	Stable	BBB+	A
Standard & Poor's	Negative	BBB+	BBB+
Moody's	Stable	Baa2	Baa1

(1) For detailed background on the latest credit opinions, including commentary on the impact of the demerger and IPO, by S&P and Fitch, please refer to the respective rating agency websites.
(2) CYBI.
(3) Long term deposit rating

Funding and liquidity

At 30 September 2016, 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 this 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 as a source of collateral for secured funding.

The LDR increased from 109% to 112% 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 and UK Government Gilts. Total unencumbered liquid assets were managed lower from £5,527m to £5,081m. This is primarily due to a lower balance with the Bank of England as a result of the lending growth and deposit actions described above. The Group was compliant with all internal and regulatory liquidity metrics at 30 September 2016.

Liquid asset reserve	2016 £m	2015 £m
Cash and balances with central banks	5,955	6,431
Encumbered cash balances	(2,468)	(2,301)
	3,487	4,130
Listed securities	1,695	1,447
Encumbered available for sale securities	(101)	(50)
	1,594	1,397
Total unencumbered liquid assets	5,081	5,527

In addition to the above, as at 30 September 2016, the Group had £2.8bn (30 September 2015: £3.9bn) of gross eligible collateral pre-positioned with the BoE for potential use in its liquidity facilities.

Encumbered assets by asset category at 30 September 2016

Certain of the Group's assets are encumbered. 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 Bank of England Term Funding Scheme. The Group monitors the level of asset encumbrance to ensure an appropriate balance is maintained.

	Assets encumbered with non-Central Bank counterparties				Other assets					
						Assets not positioned at the Central Bank				
	Covered Bonds £m	Securiti-sations £m	Other £m	Total £m	Positioned at the Central Bank (including encumbered) £m	Readily available for encum-brance £m	Other assets capable of being encum-bered £m	Cannot be encum-bered £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

Liquid assets	2016 £m	2015 £m
UK Government Treasury Bills and Gilts	1,286	1,274
Cash and cash at central bank	3,773	4,398
Note cover [1]	2,182	2,033
Other debt securities	409	173
	7,650	7,878

(1) Note cover is excluded from PRA regulatory liquidity.

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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.

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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 Board's Risk Committee, and inherent in the Group's business model. • The Credit Portfolio is closely monitored including risk sensitivity analysis with reviews of asset quality metrics with actions initiated where required
Balance Sheet & Prudential Regulation Risks cover a number of categories of risk, which, affect the manner in which the Group can support its customers in a safe and sound manner. The risks include the need 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). The Group may face changes in values of asset 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 Adequacy which is shared with the PRA; this includes analysis of key risks with consideration of stress scenarios. • Capital is forecast and monitored on a monthly basis by Treasury overseen by the Asset and Liability Committee (ALCO). • The Group completes a formal annual assessment of its capital requirements which is shared with the PRA, the outcome of the process influences the allocation and quantum of capital and feeds directly into risk appetite. • The Group has a designated Prudential Risk team who independently monitor, oversee and challenge Balance Sheet risks. • The Group undertakes a detailed assessment of the capital requirements inherent in its strategy including consideration of the impact of significant loss scenarios in order to inform the Board of potential areas of weakness in the Group's business model and also to ensure an appropriate level of capital is held in both business as usual and stressed environments.
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	• 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.

Business and financial review (continued)

Risk	Mitigation
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 embedded to ensure those objectives are met.
Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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, or circumvent existing controls.	• 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 (KYC) 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 CEO and Executive Leadership Team. • A consolidated report outlining the triggers and exposure to strategic risk is independently prepared and presented to the Board's Risk Committee by the CRO
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 our leadership is reviewed and assessed through succession planning and talent management activity. • Decisioning 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

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Business and financial review (continued)

Emerging risks

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
The UK Vote to Leave the EU ("Brexit")	The outcome of the EU Referendum has created a period of economic uncertainty for the UK and wider environment. Without certainty or clarity as to exit plans, a number of market commentators have predicted a slowdown in the economy. 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 and geopolitical uncertainty. The impact of the sustained low interest rate environment following the recent reduction in the BoE Base Rate places increased pressure on NIM and has an adverse effect on valuations of the Defined Benefit Pension Scheme with a resultant adverse impact on Capital. In addition, depressed oil prices may also impact economic growth and have implications relative to the Group's strategic objectives. 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 potential impacts.
Separation from NAB	There is a risk that the functions and processes developed and restructured as part of the separation from NAB may not operate as intended or may not have been properly created or completed, which could result in operational difficulties. Transitional Service Agreements (TSAs) and associated exit plans are in place with NAB to provide ongoing support for a small number of functions and processes over agreed timeframes. Other functions and processes already transitioned were tested for readiness and are now subject to oversight through the Group's Risk Management Framework.
BTL lending	Regulatory and taxation changes such as limits to the income tax relief on mortgage interest expense and additional stamp duty may result in lower yields on BTL property investments and may negatively affect mortgage supply and demand. The Group has a balanced portfolio with growth through a number of channels and products. The lending portfolio is subject to regular monitoring and stress testing. Customer affordability checks and full BTL credit assessments are conducted at the point of application. Risk Appetite includes a number of BTL measures which are regularly reviewed and adjusted as appropriate.
Cybercrime and IT	An inability to appropriately respond to the increased threat of cybercrime associated with digital expansion, or maintain pace with industry trends and Customer expectations may materially affect the Group's financial and operational performance. The Group continues to invest and enhance information security defences in response to emerging and known threats. Procedures are in place to ensure compliance with data protection regulations by both employees and third party service providers, and to implement security measures to help prevent cyber theft.
Regulatory capital requirements	The Group may be impacted by certain revisions in the methodology for calculating regulatory capital which may include, amongst other things, changes to the approach for calculating the standardised approaches for Credit Risk and Operational Risk, on which the BCBS is consulting. The Group continually assesses the impact of changes to prudential requirements and, when appropriate, will seek to mitigate the impact by applying changes to business processes including the implementation of IRB.
Banking reform, ring fencing and resolution	The relevant regulatory authorities in the UK and Europe have proposed reforms to a number of aspects of the banking sector. While the impact of these remains uncertain, the evolution of these and future initiatives may impact on the business, financial conditions and results of operations. The majority of the Group's activities are expected to be permitted activities for ring fenced banks under the proposed rules and therefore, the Group does not expect to make material changes to its current legal structure or operations.

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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), 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 and the requirement for firms to meet MREL will be phased in between 2016 and 2022. The BoE will communicate the Group's MREL requirements. There are risks that in order to comply with MREL the Group will need to begin issuing debt instruments that satisfy MREL and this may be at a significantly higher cost to other forms of debt leading to a 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 and 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 the relative impact may adversely impact the Group's competitiveness.
Potential changes to UK corporation tax	The UK tax environment for banking groups is unsettled. Recent material changes have included a new 8% surcharge on taxable profits (without relief for losses) from 1 January 2016, compounding the adverse impact of 2015 changes that made charges for compensation payments largely non deductible for tax. Further, from 1 April 2016, only 25% of a Bank's taxable profit can be relieved by brought forward losses, greatly increasing the horizon over which losses may be used whilst accelerating cash tax outflow. This change, enacted alongside a further reduction, to 17% from 1 April 2020, in the mainstream rate of tax, has triggered a reassessment of the carrying value of deferred tax assets and resulted in a pre-tax profit becoming a post-tax loss. Other changes announced but not yet enacted include a proposed restriction on the tax deductibility of interest and interest like amounts. Any restriction in interest expense could increase the tax charge. The application of this proposed change to Financial Services businesses remains subject to consultation between the industry and HM Treasury, with further announcements expected in draft legislation due in December 2016.
Use of data	The EU Commissions General Data Protection Regulation is to be introduced from 25 May 2018 meaning that 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. Changes to legislation may also inhibit the Group's ability to use data to carry out its business objectives. The Payment Services Directive 2 (PSD2) requiring to be implemented from 13 January 2018, introduces changes to the use and control of Customers' 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. Another feature of PSD2 is the requirement to introduce strong Customer authentication systems to increase the security around payments.

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Responsibility Statement of the Directors in respect of the Annual Report and Accounts

The responsibility statement below has been prepared in connection with the Company's full Annual Report and Accounts for the year ending 30 September 2016. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the business and financial review includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 21 November 2016 and is signed on its behalf by:

David Duffy
Chief Executive Officer
21 November 2016

CYBG PLC
Consolidated income statement
for the year ended 30 September 2016

	Note	2016 £m	2015 £m
Interest income and similar income		1,101	1,110
Interest expense and similar charges		(295)	(323)
Net interest income	5	806	787
Gains less losses on financial instruments at fair value		9	2
Other operating income		182	238
Non-interest income	6	191	240
Total operating income		997	1,027
Personnel expenses		(280)	(266)
Restructuring expenses		(45)	(17)
Depreciation and amortisation expense		(88)	(83)
Other operating and administrative expenses		(468)	(868)
Total operating and administrative expenses before impairment losses	7	(881)	(1,234)
Operating profit/(loss) before impairment losses		116	(207)
Impairment losses on credit exposures	17	(39)	(78)
Profit/(loss) on ordinary activities before tax		77	(285)
Tax (expense)/credit	8	(241)	56
Loss for the year		(164)	(229)
Loss attributable to ordinary shareholders		(206)	(247)
Profit attributable to other equity holders		42	18
Loss for the year attributable to equity holders		(164)	(229)
Basic loss per share (pence)	10	(22.5)	(28.7)
Diluted loss per share (pence)	10	(22.4)	(28.7)

Comparative disclosures have been amended to conform with the current period's presentation as detailed in note 1.

All material items dealt with in arriving at the profit/(loss) before tax for the above years relate to continuing activities.

The notes on pages 38 to 104 form an integral part of these financial statements.

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CYBG PLC
Consolidated statement of comprehensive income
for the year ended 30 September 2016

	Note	2016 £m	2015 £m
Loss for the year		(164)	(229)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
Gains during the year		105	21
Transfers to the income statement		(1)	(18)
Taxation thereon		(25)	-
		79	3
Change in available for sale reserve			
Gains during the year		29	5
Transfers to the income statement		(8)	-
Taxation thereon		(6)	(1)
		15	4
Total items that may be reclassified to the income statement		94	7
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit pension plans	29	(179)	(36)
Taxation thereon		43	7
		(136)	(29)
Total items that will not be reclassified to the income statement		(136)	(29)
Other comprehensive losses, net of tax		(42)	(22)
Total comprehensive losses for the year, net of tax		(206)	(251)
Total comprehensive losses attributable to ordinary shareholders		(248)	(269)
Total comprehensive income attributable to other equity holders		42	18
Total comprehensive losses attributable to equity holders		(206)	(251)

Comparative disclosures have been amended to conform with the current period's presentation as detailed in note 1.

The notes on pages 38 to 104 form an integral part of these financial statements.

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CYBG PLC
Consolidated balance sheet
as at 30 September 2016

	Note	2016 £m	2015 £m
Assets			
Cash and balances with central banks	11	**5,955**	6,431
Due from related entities	12	**-**	786
Due from other banks		**952**	128
Financial assets available for sale	13	**1,731**	1,462
Other financial assets at fair value	14	**750**	1,097
Derivative financial instruments	15	**585**	285
Loans and advances to customers	16	**29,202**	27,482
Due from customers on acceptances		**4**	4
Current tax assets		**2**	4
Property, plant and equipment	19	**99**	109
Investment properties	20	**22**	32
Investments in controlled entities and associates	21	**-**	2
Intangible assets	22	**256**	265
Deferred tax assets	23	**183**	389
Defined benefit pension assets	29	**-**	52
Other assets	24	**188**	177
Total assets		**39,929**	38,705
Liabilities			
Due to other banks	25	**1,309**	393
Other financial liabilities at fair value	14	**48**	67
Derivative financial instruments	15	**598**	534
Due to customers	26	**27,090**	26,407
Liabilities on acceptances		**4**	4
Provisions for liabilities and charges	27	**852**	1,006
Due to related entities	12	**-**	998
Debt securities in issue	28	**4,501**	3,766
Retirement benefit obligations	29	**79**	4
Deferred tax liabilities	23	**27**	10
Other liabilities	30	**2,210**	2,073
Total liabilities		**36,718**	35,262
Equity			
Share capital	31, 32	**88**	223
Other equity instruments	32	**450**	450
Share premium	32	**-**	670
Capital reorganisation reserve	32	**(839)**	-
Merger reserve	32	**633**	-
Other reserves	32	**100**	4
Retained earnings	32	**2,779**	2,096
Total equity		**3,211**	3,443
Total liabilities and equity		**39,929**	38,705

The notes on pages 38 to 104 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 November 2016 and were signed on its behalf by:

David Duffy — **Chief Executive Officer**

Ian Smith — **Chief Financial Officer**

CYBG PLC, Registered number: 09595911

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CYBG PLC

Consolidated statement of changes in equity
for the year ended 30 September 2016

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £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
As at 1 October 2014		1,882	-	100	-	-	300	2	2	8	(16)	260	2,538
Loss for the year		-	-	-	-	-	-	-	-	-	-	(229)	(229)
Other comprehensive income/(losses), net of tax		-	-	-	-	-	-	-	-	4	3	(29)	(22)
Total comprehensive income/(losses) for the year		-	-	-	-	-	-	-	-	4	3	(258)	(251)
AT1 distribution paid (net of tax)		-	-	-	-	-	-	-	-	-	-	(14)	(14)
Share capital reduction		(2,009)	-	-	-	-	-	-	-	-	-	2,009	-
Capital note issued		-	-	-	-	-	150	-	-	-	-	-	150
Shares issued		350	670	-	-	-	-	-	-	-	-	-	1,020
Transfer from capital redemption reserve		-	-	(100)	-	-	-	-	-	-	-	100	-
Transfer to equity based compensation reserve		-	-	-	-	-	-	1	-	-	-	(1)	-
Equity based compensation expensed		-	-	-	-	-	-	7	-	-	-	-	7
Equity based compensation settled		-	-	-	-	-	-	(7)	-	-	-	-	(7)
As at 30 September 2015	31,32	**223**	**670**	**-**	**-**	**-**	**450**	**3**	**2**	**12**	**(13)**	**2,096**	**3,443**
Loss for the year		-	-	-	-	-	-	-	-	-	-	(164)	(164)
Other comprehensive income/(losses), net of tax		-	-	-	-	-	-	-	-	15	79	(136)	(42)
Total comprehensive income/(losses) for the year		-	-	-	-	-	-	-	-	15	79	(300)	(206)
AT1 distribution paid (net of tax)	9	-	-	-	-	-	-	-	-	-	-	(28)	(28)
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)		-	-	-	-	-	(450)	-	-	-	-	(5)	(455)
Capital note issued		-	-	-	-	-	450	-	-	-	-	-	450
Transfer from equity based compensation reserve		-	-	-	-	-	-	(4)	-	-	-	4	-
Transfer from asset revaluation reserve									(1)			1	-
Equity based compensation expensed		-	-	-	-	-	-	5	-	-	-	-	5
Equity based compensation settled		-	-	-	-	-	-	2	-	-	-	-	2
As at 30 September 2016	31,32	**88**	**-**	**-**	**(839)**	**633**	**450**	**6**	**1**	**27**	**66**	**2,779**	**3,211**

Comparative disclosures have been amended to conform with the current period's presentation as detailed in note 1.

The notes on pages 38 to 104 form an integral part of these financial statements.

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CYBG PLC
Consolidated statement of cash flows
for the year ended 30 September 2016

	Note	2016 £m	2015 £m
Operating activities			
Profit/(loss) on ordinary activities before tax		77	(285)
Adjustments for:			
Non-cash or non-operating items included in profit/(loss) before tax	34	(643)	(679)
Changes in operating assets	34	(2,285)	(1,494)
Changes in operating liabilities	34	1,587	1,983
Interest received		1,101	1,257
Interest paid		(200)	(418)
Tax repayment received		-	5
Tax received/(paid) - group relief		4	(20)
Net cash (used in)/provided by operating activities		(359)	349
Cash flows used in investing activities			
Interest received		11	8
Proceeds from sale or maturity of investments		101	-
Proceeds from sale of tangible fixed assets [1]		17	17
Purchase of tangible fixed assets [1]		(22)	(19)
Purchases of investments		(357)	(269)
Proceeds from sale of available for sale investments		56	-
Purchase and development of intangible assets		(99)	(119)
Net cash used in investing activities		(293)	(382)
Cash flows from financing activities			
Interest received		1	3
Interest paid		(98)	(122)
Proceeds from ordinary shares issued	31	-	1,020
Proceeds from other equity instruments issued		450	150
Repurchase of other equity instruments		(457)	-
Redemption of medium term notes	12	-	(427)
Repurchase of subordinated debt	12	(474)	(591)
Redemption and principal repayment on residential mortgage backed securities and covered bonds	18	(1,029)	(921)
Issuance of residential mortgage backed securities and covered bonds	18	750	1,207
Issuance of subordinated debt	28	475	-
Net decrease in amounts due from related entities		786	686
Net decrease in amounts due to related entities		(106)	(512)
Equity based compensation		2	-
AT1 distributions	9	(35)	(18)
Net cash provided by financing activities		265	475
Net (decrease)/increase in cash and cash equivalents		(387)	442
Cash and cash equivalents at the beginning of the year		6,337	5,895
Cash and cash equivalents at the end of the year [2]	34	5,950	6,337

(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, due to related entities and other liabilities.

The notes on pages 38 to 104 form an integral part of these financial statements.

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1. Basis of preparation

Reporting entity

The Company is incorporated in the UK and registered in England and Wales. On 8 February 2016, the Company became the new holding company for the CYBI Group by way of a share for share exchange and was unconditionally listed on the London Stock Exchange. On the basis that the transaction was effected by creating a new parent that is itself not a business, the transaction is considered to be outside the scope of IFRS 3 Business Combinations. It has therefore been accounted for using the pooling of interest method as a continuation of the existing group. The consolidated financial statements for the year ended 30 September 2016 comprise the Company and its controlled entities (together the "Group"). The Group's controlled entities are listed in note 42.
The comparative figures provided are those of the CYBI Group.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006. The consolidated financial statements of the Group for the year ended 30 September 2016 were authorised for issue by the Board of Directors on 21 November 2016.

Basis of measurement

The financial information has been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment properties, financial assets available for sale and certain other financial assets and liabilities at fair value through profit or loss including all derivative contracts.

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 Strategic Report section of the Annual Report and Accounts. In addition, the Risk Report section of the Annual Report and Accounts includes the Group's risk management objectives and the Group's objectives, policies and processes for managing its capital.

In assessing the Group's going concern position as at 30 September 2016, the Directors have considered a number of factors, including the current balance sheet position, the principal and emerging risks which could impact the performance of the Group and the Group's strategic and financial plan which includes future projections of profitability, capital adequacy, liquidity and funding. The assessment concluded that, for the foreseeable future, the Group has sufficient capital to support its operations; has a funding and liquidity base which is strong, robust and well managed with future capacity; and has expectations that performance will continue to improve as the Group's strategy is executed.

As a result of the assessment, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Group is well placed to manage its risks successfully in line with its business model and strategic aims. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Restatement of comparative amounts - Presentation of tax on AT1 distributions

In comparative periods, the tax deduction associated with AT1 distributions was recognised in the income statement rather than directly in equity. Whilst this approach is permitted under IFRS, it is not aligned with other UK banks. Accordingly, the accounting policy has been revised to require recognition of the AT1 distributions directly in equity, net of any tax relief. This has resulted in a restatement of comparative amounts as described below.

The impact on the Group's result for the year ended 30 September 2015 was a decrease in the tax credit by £4m from £60m to £56m, increasing the loss for the year from £225m to £229m. There was a corresponding decrease in the amounts taken to Retained earnings in relation to AT1 distributions by £4m from £18m to £14m. In addition, note 8 'Taxation' has been impacted by the restatement. There has been no impact on the Group's total assets, net assets or closing reserves as a result of the change.

The tax credit associated with AT1 distributions is now recognised directly in equity rather than in the income statement. The profit after tax attributable to other equity holders of £42m (2015: £18m) is partly offset in reserves by a tax credit attributable to ordinary shareholders of £7m on AT1 dividends (2015: £4m) and a £1m tax credit attributable to ordinary shareholders on the refinancing of the AT1 debt (2015: £Nil).

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2. Accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with, and are a continuation of, those policies followed in the preparation of the CYBI annual report and consolidated financial statements for the year ended 30 September 2015. Newly applicable accounting policies in relation to earnings per share and updates to the Group's policies on equity based payments, the equity based compensation reserve and the presentation of tax on AT1 distributions are detailed in the relevant sections within this note and note 1.

Basis of consolidation

Controlled entities are all entities (including structured entities) to which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. For details of controlled structured entities refer to note 21. For details of investments in subsidiaries and associates refer to note 42.

Controlled entities are consolidated from the date on which control is established by the Group until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control. Balances and transactions between entities within the Group and any unrealised gains and losses arising from those transactions are eliminated in full upon consolidation. The consolidated financial statements have been prepared using uniform accounting policies.

New accounting standards and interpretations adopted during the year

The Group has not adopted any new or amended accounting standard or interpretation in the current year.

New accounting standards and interpretations not yet adopted

The following standards and amendments are relevant to the Group and were available for adoption in the European Union (EU), but are not mandatory and have not been applied by the Group in preparing these financial statements. The Group is currently assessing the impact of IFRS 15: 'Revenue from Contracts with Customers', with this exception, none of the amendments listed are expected to have a significant impact for the Group:

- IFRS 15 'Revenue from Contracts with Customers', issued May 2014 and effective for financial years beginning on or after 1 January 2018. This standard establishes principles for reporting information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers. In April 2016, the International Accounting Standards Board (IASB) issued Clarifications to IFRS 15 to address certain implementation issues identified and provide additional transitional relief options.
- 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 are not appropriate.
- 'Annual Improvements to IFRS 2012-2014 Cycle', issued September 2014 and effective for financial years beginning on or after 1 January 2016. The IASB have made amendments to the following standards that are relevant to the Group and Company: 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 narrow scope amendments providing clarification to existing IAS 1 'Presentation of Financial Statements' requirements.

There are a number of other standards and amendments relevant to the Group that are not available for adoption in the EU, nor effective at 30 September 2016 and have not been applied by the Group in preparing these financial statements. The most significant of these pronouncements is IFRS 9 'Financial Instruments', issued July 2014 and effective for financial years beginning on or after 1 January 2018. An update on the Group's implementation of IFRS 9 is provided below.

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Update on the implementation of IFRS 9

CYBG implementation strategy and approach

The Group continues to work on its implementation strategy for IFRS 9, which is expected to receive EU endorsement by the end of the 2016 calendar year, and has mobilised an IFRS 9 project team to ensure implementation in line with the standard and other evolving regulatory guidance and industry practice. The project has representation from both the Finance and Risk Management functions, with a Steering Committee and formal Project Control Board in place to provide the necessary oversight. The Board has also established a sub committee to oversight the implementation of IFRS 9 and the application of Internal Rating Basis to regulatory capital.

The primary objectives of the project include: defining accounting policies and approaches; co-ordinating with the Group's IRB Programme to ensure risk models meet the required specifications; delivery of data and system changes; and updating the credit provisioning operating model and overall governance framework. Key decisions on the impairment requirements of IFRS 9 involve appropriate internal stakeholder consultation; rigorous internal review performed by senior representation from both Finance and Risk Management; external review and challenge exercises; and presentation of the adopted impairment accounting policy decisions to the project oversight committees.

The Group's intention is to perform an end-to-end parallel run during the year commencing 1 October 2017, capturing the IFRS 9 requirements for classification, measurement and impairment. The most significant of these will be the impairment requirements of the standard, which will be closely monitored during the parallel run phase, to compare the results with expectations and to ensure that the Group's initial proposed staging criteria produces an impairment allowance which accurately reflects the credit risk provision in those financial assets that will be subject to a lifetime expected loss calculation.

The Group's current view on the three phases of IFRS 9 (classification and measurement, impairment and hedging) is as follows:

Classification and measurement

An initial assessment of the classification and measurement requirements of IFRS 9 has been undertaken with the main issue arising being the classification of financial assets in the IAS 39 category of available for sale (AFS) that does not exist under IFRS 9.

IFRS 9 simplifies the classification of financial assets by reducing the number of categories to just three (amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL)). The final classification is based on a combination of the Group's business model and the contractual cash flow characteristics of the instruments. The option to designate a financial asset at FVTPL in IAS 39 is largely retained in IFRS 9, with IFRS 9 also affording a further option to designate certain equity instruments at FVOCI instead of accounting for these as FVTPL.

The majority of the Group's financial assets under IAS 39 relate to loans and advances to customers and are currently classified under loans and receivables and held at amortised cost; the Group expects these will remain in the amortised cost category on implementation of IFRS 9.

The Group is still considering the classification options that are available for other financial assets including Treasury assets and other debt instruments currently held as AFS.

Impairment (including modelling development)

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model which replaces the current incurred loss methodology under IAS 39 and is the area where IFRS 9 will have the most significant impact.

IFRS 9 requires a 12 month (Stage 1) ECL calculation where financial assets have not experienced a significant increase in credit risk since origination; and a lifetime ECL calculation where it has been demonstrated that there has been a significant increase in credit risk (Stage 2 and 3). The lifetime ECL calculation is further refined into separate stages depending on whether the financial asset is credit impaired or not. When a financial asset is credit impaired (Stage 3), the resultant methodology to calculate the loss allowance under IFRS 9 uses the same criteria as the Group's IAS 39 methodology for specific provisions, however it is anticipated that not all financial assets which are classified as Stage 3 will already have been subject to a specific provision under IAS 39.

The area of IFRS 9's impairment criteria where the greatest judgement is required relates to when financial assets display a significant deterioration in credit quality since initial recognition and subsequently move from a 12 month ECL calculation (Stage 1) to a non-credit impaired lifetime ECL calculation (Stage 2).

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2. Accounting policies (continued)

Update on the implementation of IFRS 9 (continued)

The Group has reflected on what a significant increase in credit risk since initial recognition means in terms of both Retail and SME portfolios and determined that here is no single factor that influences this decision; rather, a combination of different criteria require to be assessed before concluding that a significant increase in credit risk since initial recognition has taken place. For example, in SME portfolios, a combination of the Group's internal rating system and other qualitative factors such as 'watch' status and 'approaching financial difficulty' status could be used in making this determination. For Retail portfolios, the proposed approach will move accounts to a lifetime ECL when the residual lifetime Probability of Default (PD) has deteriorated since origination by a pre-determined threshold, supplemented with other credit quality indicators. The 30 DPD presumption for a significant increase in credit risk since origination that exists within IFRS 9 will not be rebutted, and will form part of the overall assessment. The Group will not take advantage of the low credit risk exemption offered in IFRS 9. The low credit risk exemption allows entities not to assess whether there has been a significant increase in credit risk in a financial asset since initial recognition where the financial asset is deemed as being of low credit risk at the reporting date. The Group will assess all financial assets under the same criteria. For both Retail and SME portfolios, the Group's forbearance programmes will also play a part in determining a significant increase in credit risk since initial recognition.

The Group will look to align the accounting and regulatory definition of default for IFRS 9 in both Retail and SME portfolios. As part of this alignment, a review of the Group's forbearance strategies will be necessary and where a total or partial change outside the normal terms and conditions of a contract is identified, this may come under the Group's revised definition of default. Other forbearance measures undertaken by the Group that do not fall under the definition of default would form part of the assessment of a significant increase in credit risk since origination and attract a lifetime ECL calculation under Stage 2.

The Group will look to leverage off the model development work that is necessary under the IRB Programme as far as practically possible for IFRS 9 purposes with new Retail models and the transformation and alignment of existing SME models developed for all products and portfolios. The model development programme for IFRS9 will run concurrently with the IRB Programme. The Group will look to apply appropriate and proportional segmentation to the modelling approach for the Retail portfolio of mortgages, personal loans, credit cards and current accounts. For the SME portfolio, the segmentation that exists within the Group's internal rating system already meets the requirements of IFRS 9.

The Group's loan commitments and financial guarantee contracts will be assessed under IFRS 9's impairment criteria as part of the overall Retail and SME impairment methodologies. In addition, the Group will also apply the single impairment principles introduced by IFRS 9 to all other financial assets identified by the Group under the amortised cost and FVOCI classification categories.

The Group will continue to refine the ECL approach under IFRS 9 and provide an update on the progress made at each reporting period until implementation. This is in line with the approach recommended by the Enhanced Disclosure Task Force in their ECL report in November 2015.

Hedging

Until the guidance on hedging accounting is finalised by the IASB, the Group will look to exercise the accounting policy choice afforded by IFRS 9 and continue to apply the hedge accounting requirements of IAS 39. The Group is assessing the revised hedge accounting disclosures required by the amendment to IFRS 7 'Financial Instruments: Disclosures' and will look to implement these where appropriate.

Other standards and amendments

Listed below are the other standards and amendments relevant to the Group that are not available for adoption in the EU, nor effective at 30 September 2016 and that have not therefore been applied by the Group in preparing these financial statements. The Group is currently assessing the impact of these standards and amendments.

- IFRS 16 'Leases' issued on 13 January 2016 and effective for financial years beginning on or after 1 January 2019. This standard replaces IAS 17: Leases and will result in most leases being brought onto a lessee's balance sheet under a single lease model, removing the distinction between finance and operating leases. The standard requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessor accounting requirements remain aligned to the current approach under IAS 17.
- Amendments to IAS 12: 'Recognition of Deferred Tax Assets for Unrealised Losses' issued on 19 January 2016 and effective for financial years beginning on or after 1 January 2017. The amendments clarify the requirements on the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7: 'Disclosure initiative' issued on 29 January 2016 and effective for financial years beginning on or after 1 January 2017. The amendments to IAS 7: Statement of Cash Flows require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from an entity's financing activities.
- Amendments to IFRS 2: 'Classification and Measurement of Share-based Payment Transactions' issued on 20 June 2016 and effective for financial years beginning on or after 1 January 2017. The amendments provide guidance on the effects of vesting and non-vesting conditions on the measurement of cash-settled equity based payments; classification of equity based payments with a net settlement feature for withholding tax obligations; and accounting for modifications to a equity based payment that change the classification from cash-settled to equity-settled.

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2. Accounting policies (continued)

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in pounds sterling (GBP), which is also the Group's presentation currency, rounded to the nearest million pounds sterling (£m) unless otherwise stated.

Transactions and balances

Initially, at the date of a foreign currency transaction, the Group records an asset, liability, expense or revenue arising from a transaction using the end of day spot exchange rate between the functional and foreign currency on the transaction date.

Subsequently, at each reporting date, the Group translates foreign currency monetary items at the closing spot rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the income statement during the year in which the gains or losses arise.

Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction. Foreign currency non-monetary items measured at fair value will be translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity. Foreign exchange differences arising from non-monetary items, whereby the associated gains or losses are recognised in the income statement, are also recognised in the income statement.

Revenue recognition

Net interest income

Interest income is reflected in the income statement using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Loan origination and commitment fees are recognised as revenue within the effective interest rate calculation. When the non-utilisation of a commitment fee occurs, this is taken as revenue upon expiry of the agreed commitment period. Loan related administration and service fees are recognised as revenue over the period of service.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as revenue over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

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2. Accounting policies (continued)

Revenue recognition (continued)

Fees and commissions

Fees and commissions not integral to the effective interest rate, arising from services provided to customers and third parties, are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction to which the fee relates.

Gains less losses on financial instruments at fair value through profit or loss

Gains less losses on financial instruments at fair value through profit or loss comprise fair value gains and losses from three distinct activities:

- derivatives classified as held for trading;
- hedged assets, liabilities and derivatives designated in hedge relationships; and
- financial assets and liabilities designated at fair value through profit or loss.

For trading derivatives, the full change in fair value is recognised inclusive of interest income and expense arising on those derivatives. However, in cases where a trading derivative is economically hedging an interest bearing financial asset or liability designated at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not as part of the fair value movement of the trading derivative.

Hedged assets, liabilities and derivatives designated in hedge relationships result in the recognition in income of (i) fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship (the net of which represents hedge ineffectiveness), and (ii) hedge ineffectiveness on cash flow hedge relationships.

Other assets and liabilities at fair value comprise fair value movements on those items designated as fair value through profit or loss.

Interest income and interest expense on hedged assets and liabilities and financial assets and liabilities designated as fair value through profit or loss are recognised in net interest income.

Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Group's right to receive the dividend has been established.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

Income tax expense or revenue is the tax payable or receivable on the current year's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and liabilities.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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2. Accounting policies (continued)

Taxation (continued)

Deferred tax

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise against which those temporary differences and losses may be utilised.

Dividends on ordinary shares

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

Earnings per share

Basic earnings per share is calculated by taking the profit attributable to ordinary shareholders of the parent company and dividing this by the weighted-average number of ordinary shares outstanding during the period. Any own shares held in employee benefit trusts are excluded from this calculation.

Diluted earnings per share requires that the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These arise from awards made under share-based incentive schemes. Share awards with performance conditions attaching to them are not considered to be dilutive unless these conditions have been met at the reporting date.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. This includes cash and liquid assets and amounts due to other banks (to the extent less than 90 days).

Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements ('repos') are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks, or due to customers as appropriate, based upon the counterparty to the transaction.

Securities purchased under agreements to resell ('reverse repos') are accounted for as collateralised loans. Securities borrowed are not recognised in the financial statements unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value as a trading liability. Receivables due to the Group under reverse repo agreements are normally classified as deposits with other banks or cash and cash equivalents as appropriate.

The difference between the sale and repurchase price of repos and reverse repos is treated as interest and accrued over the life of the agreements using the effective interest method.

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2. Accounting policies (continued)

Financial instruments

Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised on the balance sheet when the Group becomes party to the contractual provisions of the instrument. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Purchases and sales of financial assets classified within fair value through profit or loss are recognised on trade date, being the date that the Group is committed to purchase or sell a financial asset.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and financial assets available for sale. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities measured at amortised cost.

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred.

A financial liability is derecognised from the balance sheet when the Group has discharged its obligation to the contract, or the contract is cancelled or expires.

Offsetting financial instruments

A financial asset and a financial liability will be offset and the net amount presented on the balance sheet if, and only if, the Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments designated at fair value through profit or loss

Upon initial recognition, financial assets and liabilities may be designated at fair value through profit or loss and are initially recognised at fair value, with transaction costs being recognised in the income statement immediately. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise. Items held at fair value through profit or loss comprise both items held for trading and items specifically designated as fair value through profit or loss at initial recognition.

Restrictions are placed on the use of the designated fair value measurement option and the classification can only be used in the following circumstances:

- if a host contract contains one or more embedded derivatives, the Group may designate the entire contract as being held at fair value;
- designating the instruments will eliminate or significantly reduce measurement or recognition inconsistencies (i.e. eliminate an accounting mismatch) that would otherwise arise from measuring related assets or liabilities on a different basis; or
- assets and liabilities are both managed and their performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking, or it is a derivative not in a qualifying hedge relationship.

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2. Accounting policies (continued)

Financial instruments (continued)

Financial assets available for sale

Financial assets available for sale can be listed or unlisted and are non-derivative financial assets that are designated as available for sale and are not classified into any of the categories of (i) fair value through profit or loss; or (ii) loans and receivables and are recognised on trade date.

Financial assets available for sale are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale or impairment when the cumulative gain or loss is transferred to the income statement.

Interest income is determined using the effective interest method. Impairment losses and translation differences on monetary items are recognised in the income statement within the year in which they arise.

Financial liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking, or it is a derivative not in a qualifying hedge relationship.

All other financial liabilities are measured at amortised cost using the effective interest method.

Fair value measurement

Fair value is defined as 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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument.

Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, which represents the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on the transaction date.

The carrying value of financial assets at fair value through profit or loss incorporates the credit risk attributable to the counterparty. Changes in the credit profile of the counterparty are reflected in the fair value of the asset and recognised in the income statement.

In certain limited circumstances the Group applies the fair value measurement option to financial assets. This option is applied to loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at fair value through profit or loss to offset the movements in the fair value of the derivative within the income statement and therefore avoid accounting mismatch. When this option is applied the asset is included within other financial assets at fair value, and not within loans and advances. When a loan is held at fair value, a statistical based calculation is used to estimate expected losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value.

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2. Accounting policies (continued)

Derivative financial instruments and hedge accounting

All derivatives are recognised on the balance sheet at fair value on trade date and are classified as trading except where they are designated as part of an effective hedge relationship. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge); or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge). Hedge accounting is used for derivatives designated in this way providing certain criteria are met. The Group makes use of derivative instruments to manage exposures to interest rates and foreign currency

The Group documents, at the inception of a transaction, the relationship between hedging instruments and the hedged items, and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group documents how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedge

The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in the fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective interest basis over the remaining life of the asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Specifically, the separate component of equity is adjusted to the lesser of the cumulative gain or loss on the hedging instrument, and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- the derivative is held for purposes of short term profit taking; or
- the derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both these cases, the derivative is classified as a trading derivative and changes in the value of the derivative are immediately recognised in the income statement.

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2. Accounting policies (continued)

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale or designated at fair value through profit or loss. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and advances include overdrafts, credit card lending, market rate advances, bill financing, mortgages, lease finance and term lending.

Loans and advances are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, adjusted for impairment losses and unearned income. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

As noted above, in certain limited circumstances the Group applies the fair value measurement option to financial assets. This option is applied to loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at fair value through profit or loss to offset the movements in the fair value of the derivative within the income statement and therefore avoid accounting mismatch. When this option is applied the asset is included within other financial assets at fair value, and not within loans and advances. When a loan is held at fair value, a statistical-based calculation is used to estimate expected losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value.

Impairment of financial assets other than fair value loans

The Group assesses at each balance sheet date whether there is evidence that a financial asset or a portfolio of financial assets that is not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure and any costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and is supported by historic loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Accounting policies (continued)

Impairment of financial assets other than fair value loans (continued)

When a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured and may also be disclosed as forbearance if the customer is experiencing, or is about to experience, difficulties in meeting their financial commitments to the Group. Such accounts accrue interest as long as the loan performs in accordance with the restructured terms.

Equity and debt instruments - classed as available for sale

In the case of equity instruments classified as available for sale, the Group seeks evidence of a significant or prolonged decline in the fair value of the security below its cost to determine whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

Reversals of impairment of equity shares classified as available for sale are not recognised in the income statement. Increases in the fair value of equity shares classified as available for sale after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Where evidence of impairment exists, the net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement conveys a right to use the asset.

As lessee

The leases entered into by the Group as lessee are primarily operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

Sale and leaseback leases entered into by the Group as lessee are primarily operating leases. Where an operating lease is established at fair value, any excess of sales proceeds over the carrying amount is recognised immediately in the income statement.

As lessor

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Assets under operating leases are included within property, plant and equipment at cost and depreciated over the useful life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight line basis over the life of the lease. Depreciation is recognised within depreciation expense in the income statement consistent with the nature of the asset.

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2. Accounting policies (continued)

Property, plant and equipment

All freehold and long term leasehold land and buildings are revalued annually on an open market basis by the directors to reflect current market values, based on advice received from independent valuers. In addition, full independent valuations are carried out on a three year cycle on an open market basis, including directly attributable acquisition costs but without deducting expected selling costs. For properties that are vacant, valuations are carried out on an open market basis. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

All other items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition of the asset.

Property, plant and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use.

Where a group of assets working together supports the generation of cash inflows largely independent of cash inflows from other assets or groups of assets, the recoverable amount is assessed in relation to that group of assets (a cash-generating unit).

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight line method, at rates appropriate to their estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are:

- buildings — 2%
- leases (leasehold improvements) — the lower of the expected lease term and the asset’s useful life; and
- fixtures and equipment — 10% to 33.33%

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

Investment properties

These are properties (land or buildings, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment property assets are carried at fair value, with fair value movements taken to the income statement in the year in which they arise. Investment property assets are revalued annually by the directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. Newly acquired investment property assets are held at cost (equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months.

Investments in controlled entities and associates

The Group's investments in controlled entities and associates are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities and associates are recognised in the income statement.

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2. Accounting policies (continued)

Intangible assets

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised computer software costs are amortised on a straight line basis over their expected useful lives, usually between three and eight years. Impairment losses are recognised in the income statement as incurred.

Computer software is stated at cost, less amortisation and provision for impairment, if any.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value in use.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units and they represent a group of assets that generate cash inflows that are largely independent from other assets or groups of assets.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when a legal or constructive obligation exists as a result of past events, it is probable that an outflow of economic benefits will be necessary to settle the obligation, and the obligation can be reliably estimated. Provisions for liabilities and charges are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Conduct Indemnity

As part of the demerger, NAB and the Company have entered into a Conduct Indemnity Deed. The accounting for this matter is discussed in note 27.

Pension and post retirement costs

Employees of the Group are entitled to benefits on retirement, disability or death from the Group's pension plans. The Group operates both defined benefit and defined contribution pension schemes.

Defined contribution pension scheme

The defined contribution scheme receives fixed contributions from Group companies and the Group's obligation for contributions to these plans recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

Defined benefit pension scheme

The defined benefit scheme provides defined benefits based on years of service and career averaged revalued earnings for benefits accruing after 1 April 2006. A liability or asset in respect of the defined benefit scheme is recognised on the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high quality corporate bond rates that have maturity dates approximating to the terms of the Group's defined benefit obligation.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, net interest on the net defined benefit obligation/(asset), past service cost resulting from a scheme amendment or curtailment, gains or losses on settlement and administrative costs incurred. Where actuarial remeasurements arise, the Group's policy is to fully recognise such amounts directly in equity through the statement of comprehensive income, in the period in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

The Group also provides post-retirement health care for certain retired employees. The calculation of the post-retirement health care liability is calculated in the same manner as the defined benefit pension obligation.

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2. Accounting policies (continued)

Subordinated debt and related entity balances

Subordinated debt and related entity balances, other than derivatives, are recorded at amortised cost. Prior to the demerger, the subordinated debt was included within amounts due to related entities on the balance sheet. Subordinated debt outstanding at 30 September 2016 is included in debt securities in issue.

Debt issues

Debt issues are short and long term debt issued by the Group including commercial paper, notes, term loans and residential mortgage backed securities (RMBS). Debt issues are typically recorded at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Interest is charged to the income statement using the effective interest method.

Securitisation

The Group has securitised certain loans (principally housing mortgage loans) by transfer of these to structured entities (SEs) controlled by the Group. The securitisation enables a subsequent issue of debt, either by the Bank or the SEs, to investors who gain security of the underlying assets as collateral. Those SEs are fully consolidated into the Group's accounts. All such transferred loans continue to be held on the consolidated balance sheet, and a liability recognised for the proceeds of the funding transaction, as the Group retains substantially all the risks and rewards associated with the transferred loans.

Financial guarantees

The Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary. Subsequently, the Group records and measures the financial guarantee contract at the higher of:

- where it is likely the Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable; and
- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

Equity based compensation

The Group engages in equity based payment transactions in respect of services received from certain of its employees and to provide long term incentives. The fair value of the services received is recognised as an expense. The total amount to be expensed is measured by reference to the fair value of the Company's shares, performance options or performance rights granted, including, where relevant, any market performance conditions and any non-vesting conditions.

The impacts of any service and non-market performance vesting conditions are not included in the fair value and instead are included in estimating the number of awards or options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised in the equity based compensation reserve. In some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between start of the service period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of shares, performance options and performance rights that are expected to vest based on the non-market and service vesting conditions. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity based compensation reserve.

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2. Accounting policies (continued)

Equity

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 adjusted for deferred tax.

In comparative periods the equity based compensation reserve represented the outstanding fair value amount in respect of share based payment expense recharged by the Group's former ultimate parent, NAB, which had been charged through the income statement and adjusted for deferred tax.

At the date of the demerger, current and former employees of the Group held awards granted in previous periods for which vesting is subject to continuing employment, and in some instances specified performance criteria being met. Following the demerger, existing unvested awards remain in place. NAB will settle the awards granted to Group employees in previous periods in accordance with the original terms of the grant. The Group will compensate NAB for the cost of the awards provided to the Group's employee. Subsequent to the demerger, the amounts payable to NAB in respect of such awards no longer meet the definition of equity based payments under IFRS 2: *Share based payment*. Consequently, amounts within the equity based compensation reserve relating to outstanding NAB awards were reclassified to due to other banks in the consolidated balance sheet immediately following the demerger.

Cash flow hedge reserve

The cash flow hedge reserve records the effective portion of the fair value revaluation of derivatives designated as cash flow hedging instruments.

Other equity instruments

Other equity instruments represent AT1 notes. These are perpetual capital notes with no fixed maturity or redemption date and are classified as equity instruments. Distributions on the AT1 notes are deducted from equity on the payment date net of any tax relief. The Company has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any distribution that would otherwise be payable on any interest payment date.

Combination of businesses under common control

Business combinations involving entities under common control, where all combining entities are ultimately controlled by the same entity before and after the business combination, are accounted for using the predecessor values method of accounting. This involves recognising assets and liabilities of the acquired business at the predecessors' book value, without any change to reflect fair value of those assets and liabilities. Any difference between the cost of acquisition and the aggregate book value of the assets and liabilities as of the date of the transfer of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created by the business combination.

Post-acquisition, income received and expenses incurred by the entity or entities acquired are included in the consolidated income statement on a line by line basis in accordance with the accounting policies set out herein.

A non-controlling interest is recognised by the Group in respect of any portion of the total assets less total liabilities of an acquired entity or entities that is not owned by the Group.

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3. 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 estimates. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs.

The most significant judgement is in relation to the Group's fair value loan portfolio. The most significant input impacting the carrying value of the loans other than interest rates is the future expectation of credit losses. Sensitivity analysis indicating the impact of reasonably possible changes in this input on the fair value is included within note 37.

The valuation of these financial instruments is described in more detail in note 14.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

Loans and advances that have been assessed individually and found not to be impaired and all not individually significant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risk and economic data (including levels of unemployment and real estate price indices). If the PDs were to improve from those presently used within the Group's provisioning models by 5% the impairment provision on loans and advances would decrease by £5m. Alternatively, if PDs deteriorate by 5%, the impairment provision on loans and advances would increase by £5m. To the extent that recovery rates improve from those presently used within each of the Group's provisioning models by 5%, the impairment provision on loans and advances would decrease by £12m. Alternatively, if recovery rates deteriorate by 5%, the impairment provision on loans and advances would increase by £22m. There are interactions between the various assumptions within the provisioning models, which mean that no single factor is likely to move independent of others; however, the sensitivities disclosed above assume all other assumptions remain unchanged.

The impairment loss on loans and advances is disclosed in more detail in note 17 and in the Risk Report section of the Annual Report and Accounts.

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3. Critical accounting estimates and judgements (continued)

PPI redress provision and other conduct related matters

Disclosures in relation to the Group's PPI redress provision can be found in note 27 with the Group holding a provision of £725m at 30 September 2016 (2015: £774m). Significant judgement is required in determining the key assumptions used to estimate the quantum of the provision, including the level of complaint volume, (both historic and estimated future complaint volumes), uphold rates (how many claims are, or may be, upheld in the customer's favour) and redress costs (the average payment made to customers). Also factored into the estimate is the effect of the past business review and the judgements required around customer mailing response rates. The provision is therefore subject to inherent uncertainties as a result of the subjective nature of the assumptions used in quantifying the overall estimated position at 30 September 2016. Consequently, the provision calculated may be subject to change in future years as a result of the emergence of new trends in relation to the judgements and assumptions which differ to those currently used. Sensitivity analysis indicating the impact of reasonably possible changes in key assumptions on the PPI provision is included within note 27.

There are similar uncertainties and judgements for other conduct risk related matters, including the Group's IRHP provision, disclosed in note 27, however, the level of liability is materially lower.

Retirement benefit obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details on the assumptions used and sensitivity analysis on the key assumptions are provided in note 29.

Carrying value of investments

In accordance with the requirements of IAS 36, an impairment test was performed on the carrying value of the Company's investment in Clydesdale Bank PLC at the Group's standard annual impairment test date in September 2016. The results of this test did not indicate any impairment in the carrying value of Clydesdale Bank PLC.

The key assumptions and sensitivities involved in these calculations are discussed further in note 42 of the Company financial statements.

Deferred tax assets

Disclosures in relation to the Group's deferred tax assets of £183m (2015: £389m) can be found in note 23. The reduction of £206m principally reflects the impact of changes in legislation restricting the use of certain historic losses to 25% of future profits and the change in future tax rates, coupled with management's decision to reduce its horizon for recognition of losses reflecting the uncertainty inherent in the taxation of banks. The Group has assessed the recoverability of these deferred tax assets at 30 September 2016 and considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised. The Group has made this assessment with reference to the latest available profit forecasts. The tax losses carried forward have been assessed for recoverability against the Group's forecasts which include adjustments for future strategic changes, the future economic outlook and regulatory change. Current UK tax legislation does not specify a maximum forecast horizon to utilise losses; the Group expects the assets remaining on its balance sheet to be recovered over a horizon consistent with the Group's current corporate planning period which is deemed to be the reasonably forseeable future in light of the uncertainty surrounding the taxation of banking groups.

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4. 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, CEO Office Support, 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 and specialist and acquisition finance segments.

The Group's SME franchise is comprised of small businesses (which the Group defines as businesses with lending of up to £0.5m but less than £2.0m in turnover) and commercial businesses (which the Group defines as businesses with lending of more than £0.5m and greater than £2.0m in turnover). Across all business segments, the Group provides working capital solutions through asset finance, invoice finance, international trade, merchant acquiring and treasury services.

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), online banking and overdraft facilities.

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4. Segment information (continued)

Retail Banking

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

- PCA: a stable source of funding with a large number of PCA customers having a tenure with the Group of more than ten years.
- Savings accounts: the Group offers a variety of savings accounts that pay a variable rate of interest. It also offers cash ISAs that offer depositors tax free returns.
- Term deposits (sometimes referred to as 'fixed rate savings accounts' or 'time 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 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 2016	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 £9m (2015: £33m) for Retail Banking includes losses on certain retail products attributable to SME (private banking) customers.

[2] Average interest earning assets for SME Banking include £3.3bn (2015: £3.3bn) of mortgages originated by private banking.

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4. Segment information (continued)

Operating segments 2015	SME Banking £m	Retail Banking £m	Central Functions £m	Other £m	Total £m
Net interest income	274	461	52	-	787
Non-interest income	77	94	6	63	240
Operating income	351	555	58	63	1,027
Operating and administrative expenses	(82)	(116)	(529)	(507)	(1,234)
Impairment losses on credit exposures	(45)	(33)	-	-	(78)
Segment operating profit/(loss) before tax	224	406	(471)	(444)	(285)
Average interest earning assets	10,908 [(2)]	17,400	7,472	-	35,780

The components of the 'Other' segment are £1m for gains on capital and debt restructure (2015: £63m), £7m gain on available for sale asset disposal (2015: £Nil) through non-interest income. Operating and administrative expenses include £44m for PPI redress expense (2015: £390m), £Nil for PPI handling fine (2015: £21m), £Nil for IRHP redress expense (2015: £75m), other conduct expenses £7m (2015: £Nil), £45m for restructuring expenses (2015: £17m), £11m for separation costs (2015: £10m), £Nil for pension increase exchange result (2015: £18m), £45m of Impairment of intangible assets (2015: £10m), £Nil for loss on capital restructure (2015: £2m).

5. Net interest income

	2016 £m	2015 £m
Interest income and similar income		
Loans and advances to other banks	22	28
Financial assets available for sale	11	8
Loans and advances to customers	1,037	1,033
Financial assets at fair value through profit or loss	27	37
Due from related entities (note 12)	1	3
Other interest income	3	1
Total interest income and similar income	1,101	1,110
Less: interest expense and similar charges		
Due to other banks	8	5
Financial liabilities at fair value through profit or loss	1	1
Due to customers	188	195
Debt securities in issue	87	82
Due to related entities (note 12)	11	40
Total interest expense and similar charges	295	323
Net interest income	806	787

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6. Non-interest income

	2016 £m	2015 £m
Gains less losses on financial instruments at fair value		
Interest rate derivatives	3	29
Other assets and liabilities at fair value	7	(29)
Ineffectiveness arising from fair value hedges (note 15)	-	1
Ineffectiveness arising from cash flow hedges (note 15)	(1)	1
	9	2
Other operating income		
Fees and commission	151	144
Margin on foreign exchange derivative brokerage	19	19
Gains on disposal of available for sale financial assets	8	-
Net fair value movement on investment properties	(1)	(1)
Other income	5	76
	182	238
Total non-interest income	191	240

Gains less losses on financial instruments at fair value incorporates 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. In general, as interest rates fall, the fair value of the loan portfolio increases. Conversely, as interest rates rise, the fair value of the loan portfolio decreases. Similarly, if credit spreads widen, the fair value of these loans will decrease, and vice versa. A credit risk gain on fair value loans and associated liabilities of £11m, offset by a fair value loss of £4m, has been recognised in the current period (2015: £18m and £47m, respectively). The valuation technique used is reflective of current market practice.

In the year ended 30 September 2016 fees and commission income includes an additional £13m of income as a result of the acquisition of CYB Intermediaries Limited on 30 September 2015.

In the year ended 30 September 2016 other income includes a gain of £1m (2015: £2m) on early repurchase of medium term subordinated debt (note 28 and 12) and a gain of £Nil (2015: £61m) arising on capital restructures. A loss of £Nil arising on a capital restructure is included in related entity charges (notes 7 and 12) (2015: £2m).

On 2 November 2015 Visa Inc. announced the proposed acquisition of Visa Europe Limited ('Visa Europe') which was completed on 21 June 2016. The Group was a principal member and shareholder of Visa Europe and in exchange for its share received a combination of cash and preferred stock. Following the acquisition announcement, the fair value of the Group's share in Visa Europe was increased by £7m, with a corresponding increase in the Group's available for sale reserve. The fair value gain recognised within the available for sale reserve was recycled to the income statement on completion of the sale and is included within 'gains on disposal of available for sale financial assets' above.

In December 2014, £650m of Tier 2 subordinated debt issued was redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as being impacted by the introduction of a 25% capital limit under Pillar 2A. These instruments were replaced by an issue of £350m of ordinary shares and an issue of AT1 capital instruments of £150m. As a result of the redemptions, the prior year results include gains of £61m in other income arising on capital restructures and a further gain of £2m on early redemption of medium term funding on 30 September 2015, resulting in total gains in the year to 30 September 2015 of £63m.

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7. Operating and administrative expenses

	2016 £m	2015 £m
Personnel expenses		
Salaries, wages and non-cash benefits	184	175
Related personnel expenses	27	22
Defined contribution pension expense	20	16
Defined benefit pension expense	28	11
Equity based compensation	5	7
Other personnel expenses	16	35
	280	266
Restructuring		
Restructuring expense	45	17
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (note 19)	25	26
Amortisation of intangible assets (note 22)	63	57
	88	83
Other operating and administrative expenses		
Operating lease charges	30	32
Other occupancy charges	39	38
Related entity charges (note 12)	5	20
Impairment losses on software (note 22)	45	10
PPI redress expense (note 27)	44	390
Other conduct expenses (note 27)	7	75
Other operating and administrative expenses	298	303
	468	868
Total operating and administrative expenses	881	1,234

Related entity charges includes a loss on capital restructuring of £Nil (2015: £2m) (note 12).

During the year ended 30 September 2015, the Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice the member can elect to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. Accounting for this change resulted in a credit to the income statement of £18m in 2015, resulting in a reduction in the defined benefit pension expense for that year. Separation costs of £11m and £Nil (2015: £8m and £2m) are included within other operating and administrative expenses and personnel expenses respectively.

Auditor's remuneration

Included within other operating and administrative expenses:	2016 £'000	2015 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	20	242
Fees payable to the company's auditor for the audit of the company's subsidiaries	1,387	858
Total audit fees	1,407	1,100
Audit related assurance services	180	337
Other assurance services	35	1,926
Total non-audit fees	215	2,263
Fees payable to the company's auditor in respect of associated pension schemes	75	75
Total fees payable to the company's auditor	1,697	3,438

Included within other assurance is £Nil in respect of assurance work related to the demerger and IPO (2015: £1,926k) which has been paid by NAB. The movement in audit fees from 2015 to 2016 primarily relates to the demerger and changes in the Group structure.

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8. Taxation

Current tax	2016 £m	2015 £m
UK Corporation tax		
Current year	12	2
Adjustment in respect of prior years	(3)	(21)
	9	(19)
Deferred tax (note 23)		
Current year	236	(43)
Adjustment in respect of prior years	(4)	6
	232	(37)
Tax expense/(credit) for the year	241	(56)

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK. A reconciliation from the expense/(credit) implied by the standard rate to the actual tax expense/(credit) is as follows:

	2016 £m	2015 £m
Profit/(loss) on ordinary activities before tax	77	(285)
Tax expense/(credit) based on the standard rate of Corporation Tax in the UK of 20% (2015: 20.5%)	15	(58)
Effects of:		
Disallowable expenses	8	8
Conduct indemnity adjustment	(1)	-
Non-deductible FCA fine	-	4
Regulatory capital and debt restructure	-	(12)
Deferred tax assets derecognised (note 23)	237	16
Impact of rate changes	(11)	1
Adjustments in respect of prior years	(7)	(15)
Tax expense/(credit) for the year	241	(56)

Comparative disclosures have been amended to conform with the current period's presentation as detailed in note 1.

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 27).

The impact of the corporation tax rate change, restriction on loss utilisation, and the impact of management's concurrent reassessment of the recoverability of deferred tax assets, is discussed in note 23 Deferred Tax.

9. Distributions paid

	2016 £m	2015 £m
AT1 distribution paid	35	18

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10. Earnings per share

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

	2016 £m	2015 £m
Loss attributable to ordinary shareholders	(206)	(247)
Tax relief on AT1 distribution attributable to ordinary equity holders (note 1)	7	4
Tax relief on loss on repurchase of CYBI AT1 issued to NAB	1	-
Loss attributable to ordinary equity holders for the purposes of basic and diluted EPS	(198)	(243)

	2016 Number of shares (million)	2015 Number of shares (million)
Weighted-average number of ordinary shares in issue		
- Basic	880	846
- Diluted	881	846
Basic loss per share (pence)	(22.5)	(28.7)
Diluted loss per share (pence)	(22.4)	(28.7)

The numbers of shares used for calculating the earnings per share are those of CYBG PLC. The number of CYBI shares in the comparative periods have been converted into the equivalent number of CYBG PLC shares to reflect the corporate reorganisation on 8 February 2016 (note 1).

11. Cash and balances with central banks

	2016 £m	2015 £m
Cash assets	1,313	1,452
Balances with central banks (including EU payment systems)	4,642	4,979
	5,955	6,431
Less mandatory deposits with central banks [1]	(43)	(44)
Included in cash and cash equivalents (note 34)	5,912	6,387

[1] Mandatory deposits are not available for use in the Group's day to day business and are non-interest bearing.

12. Related party transactions

As explained in note 1, on 8 February 2016, CYBG PLC became the new holding company for the CYBI Group by way of a share for share exchange and was listed on the London Stock Exchange. Following the demerger and completion of the IPO, NAB no longer controls, jointly controls or has significant influence over the Company or its subsidiaries. Consequently, there is no related party relationship between NAB and the Company or its subsidiaries following the demerger date. As a result, amounts due to and due from NAB and its controlled entities have been reclassified from 8 February 2016, as explained below.

As the related party relationship ceased between the Group and NAB at the date of the demerger, only those transactions with NAB taking place up to the demerger date are reported herein as related party transactions. The comparative financial information has not been restated.

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12. Related party transactions (continued)

During the period there have been transactions between the Group, NAB, controlled entities of NAB, controlled entities of the Group, and other related parties. Any transactions with NAB subsequent to the demerger are not included in the disclosures below.

The Group provides a range of services to NAB and controlled entities of NAB, including the provision of banking facilities, granting loans and accepting deposits.

The Group receives a range of services from NAB and its related parties, including loans and deposits, foreign exchange and various technical and administrative services.

Subsequent to the date of the demerger, these are governed by TSAs and Reverse TSAs.

	2016 £m	2015 £m
Amounts due from NAB Group		
Loans	-	673
Other receivables	-	113
	-	786

The interest income on the amounts due from NAB was £1m to 8 February 2016 (2015: £3m) (note 5).

	2016 £m	2015 £m
Amounts due to NAB Group		
Deposits	-	125
RMBS	-	382
Subordinated debt	-	478
Other payables	-	13
	-	998

The interest expense on the amounts due to NAB was £11m to 8 February 2016 (2015: £40m) (note 5).

On 30 September 2015, the Group redeemed £429m of medium term notes with NAB early, resulting in a gain of £2m. The gain is included within other income (note 6) along with other capital restructuring gains of £61m.

On 8 February 2016, amounts due from NAB were reclassified as amounts due from other banks. Deposits and Other payables previously classified within Amounts due to NAB were reclassified as amounts due to other banks. The comparative financial information has not been restated.

Derivatives

The following derivative positions were held with NAB:

	2016 £m	2015 £m
Derivative financial assets		
Designated as hedging instruments	-	86
Designated as held for training	-	60
	-	146
Derivative financial liabilities		
Designated as hedging instruments	-	173
Designated as held for trading	-	263
	-	436

On 8 February 2016 derivative positions with NAB were reclassified as positions with third parties.

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12. Related party transactions (continued)

Subordinated debt

Subordinated debt comprises loan capital. Prior to the demerger, the subordinated debt was included within amounts due to related entities on the balance sheet. Subordinated debt outstanding at 30 September 2016 is included in debt securities in issue (note 28). The comparative financial information has not been restated.

Interest on the debt is payable at fixed rates, is subordinated to the claims of other creditors and is unsecured. The debt is employed in the general business of the Group.

On 8 February 2016, the Group repurchased £475m of subordinated debt from NAB at a market value of £474m, resulting in a gain on debt restructure of £1m included within other income (note 6). The replacement notes issued on 8 February 2016 are disclosed in note 28.

The rates of interest stated below applied to the Notes prior to their repayment on 8 February.

2016	2016 £m	2015 £m
10-year, non-call with a final maturity of 20 December 2023 - LIBOR +3.41%	-	300
10-year, non-call with a final maturity of 25 January 2021 - LIBOR + 4.42%	-	175
	-	475
Accrued interest payable	-	3
Total subordinated debt	-	478

On 29 December 2014, the Group repaid £232m of subordinated debt to NAB at a market value of £206m, resulting in a gain on capital restructure of £26m included within other income. A further £343m was repaid to National Equities Limited at a market value of £308m, resulting in a gain of £35m. The combined gain on capital restructures of £61m is reflected in note 6. The Group also repaid £75m subordinated debt to NAB at a market value of £77m, resulting in a loss on capital restructure of £2m included within other operating and administrative expenses (note 7).

Securitisation

The Group has securitised part of its residential and BTL mortgage portfolio. The cash raised from the issue of RMBS through structured entities forms part of the Group's medium term funding. A portfolio of BTL mortgages has been securitised through the Lannraig Master Trust Issuer programme and a total of £352m (2015: £382m) of the securities issued are held by NAB, which is no longer a related party. Following the demerger, these notes are included within debt securities in issue (note 28). The comparative financial information has not been restated.

Other transactions with NAB group	2016 £m	2015 £m
Gain on repurchase of subordinated debt	1	63
Non-interest income received	-	10
Other operating and administrative expenses (note 7)	5	20

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12. Related party transactions (continued)

Compensation of key management personnel (KMP)

During the year, the Group has reviewed and updated its definition of KMPs for the purposes of IAS 24 (Related Party Disclosures). KMP comprises directors of the Bank and members of the Executive Leadership Team. The 2015 comparative figure has been amended to conform with this revised definition.

	2016 £m	2015 £m
Salaries and short term benefits	8	6
Other long term employee benefits	1	-
Termination benefits	2	2
Equity based compensation [(1)]	4	2
	15	10

[(1)] Basis of the expense recognised in the period in accordance with IFRS 2; equity based compensations, including associated employers NIC.

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006. Directors' remuneration figures for 2015 have been included for comparative purposes. These reflect the remuneration received by the Directors, as Directors of CYBI and CB PLC during 2015.

	2016 £m	2015 £m
Aggregate remuneration	6	3
Long term incentive plans	-	-
	6	3

None of the Directors were members of the Group's defined contribution pension scheme during 2016 (2015: nil). One of the Directors was a member of the Group's defined benefit pension scheme during 2016 (2015: one). None of the Directors hold share options and none were exercised during the year (2015: nil).

Transactions with KMP

KMPs, their close family members and any entities controlled or significantly influenced by the KMPs have undertaken the following transactions with the Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Group employees, or on normal commercial terms.

	2016 £m	2015 £m
Loans and advances	8	11
Deposits	3	1

No provisions have been recognised in respect of loans provided to KMPs (2015: £Nil). There were no debts written off or forgiven during the year to 30 September 2016 (2015: £Nil). Included in the above are six (2015: ten) loans totalling £7.4m (2015: £9.5m) made to directors. In addition to the above, there are guarantees of £0.4m (2015: £0.4m) made to directors and their related parties.

Other related party transactions

The Group incurred costs in relation to pension scheme administration. These costs, which amounted to £0.5m in the year ended 30 September 2016 (2015: £0.6m), were charged to the Group sponsored scheme. The Group has deposits of £31.7m (2015: £2.1m) at the year end placed by the Scheme at market rates.

Pension contributions of £84m (2015: £51m) were made during the year to the Yorkshire and Clydesdale Bank Pension Scheme sponsored by the Group (note 29). The Group also has a £Nil (2015: £3m) term deposit balance due to the Group's associated entity (note 21) on normal commercial terms. The balance is disclosed within due to customers (note 26).

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13. Financial assets available for sale

	2016 £m	2015 £m
Listed securities	1,695	1,447
Unlisted securities	29	8
Other financial assets	7	7
	1,731	1,462

Listed Securities

Included in the available for sale (AFS) listed securities are £1,286m (2015: £1,274m) in UK Government Gilts.

Unlisted securities

These consist of unquoted equity and debt instruments, primarily:

VocaLink Holdings Limited ("VocaLink")

On 21 July 2016, MasterCard announced that it has entered into a definitive agreement to acquire 92.4% of VocaLink for consideration of £700m with an additional earn out of £169m based on attainment of certain performance targets. The allocation of earn out between equity holders varies depending on the exit option chosen. The transaction is subject to regulatory approvals and the completion date is uncertain. VocaLink is an unquoted company which operates the BACS and direct debit schemes in the UK as well as connecting ATMs using the LINK network. The Group currently owns a 3.24% shareholding in VocaLink. Following the announcement of the sale, the fair value of the Group's investment in VocaLink increased by £20m to £25m at 30 September 2016 (2015: £5m), with the corresponding gain recognised in the available for sale reserve within equity.

Visa Inc.

Included within financial assets available for sale - unlisted securities at 30 September 2016 is £2m (2015: £Nil) representing the fair value of Visa Inc. preferred stock received as partial consideration for the sale of the Group's share in Visa Europe (note 6). The preferred stock is convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential reduction for certain litigation losses that may be incurred by Visa Europe.

Other financial assets

The other AFS financial asset of £7m represents deferred consideration receivable and consists of the rights to future commission.

For further information on valuation methodology for available for sale assets and their classification within the fair value hierarchy, refer to note 37.

Credit quality of investments	2016 £m	2015 £m
Available for sale		
Senior investment grade	1,695	1,447
Other	36	15
	1,731	1,462

14. Other financial assets and liabilities at fair value

	2016 £m	2015 £m
Other financial assets at fair value through profit or loss		
Loans and advances	750	1,097
Other financial liabilities at fair value through profit or loss		
Due to customers - term deposits	48	67

Derivatives which do not meet the requirements for hedge accounting and that are related to loans held at fair value through profit or loss are accounted for as held for trading derivative financial instruments (note 15).

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14. Other financial assets and liabilities at fair value (continued)

Loans and advances

Included in other financial assets at fair value is a 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 £750m (2015: £1,097m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £24m (2015: £38m) and the change for the current year is a decrease of £14m (2015: decrease of £36m).

The loans are classified as Level 3 in the fair value hierarchy (note 37).

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 (2015: £Nil). The Group is contractually obligated to pay £3m (2015: £4m) 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 37).

15. 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 (although they are used for risk mitigation). The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading.

	2016 £m	2015 £m
Fair value of derivative financial assets		
Designated as hedging instruments	351	103
Designated as held for trading	234	182
	585	285
Fair value of derivative financial liabilities		
Designated as hedging instruments	257	244
Designated as held for trading	341	290
	598	534

Cash collateral on derivatives placed with banks totalled £337m as at 30 September 2016 (2015: £246m). Cash collateral received on derivatives totalled £57m as at 30 September 2016 (2015: £Nil). 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 with the notional contract amount being the amount from which the cash flows are derived and is not an indication of the amounts at risk relating to these contracts.

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15. Derivative financial instruments (continued)

Total derivative contracts as at 30 September 2016	Notional contract amount	Fair value of assets	Fair value of liabilities
Derivatives designated as hedging instruments	£m	£m	£m
Cash flow hedges			
Interest rate swaps	15,526	154	79
Cross currency swaps	760	88	-
Forward contracts	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 contracts	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

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15. Derivative financial instruments (continued)

Total derivative contracts as at 30 September 2015 Derivatives designated as hedging instruments	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Cash flow hedges			
Interest rate swaps	16,655	46	76
Cross currency swaps	843	8	53
	17,498	54	129
Fair value hedges			
Interest rate swaps	1,452	35	115
Cross currency swaps	499	14	-
	1,951	49	115
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot and forward contracts	1,990	47	38
Cross currency swaps	150	5	5
Options	273	2	2
	2,413	54	45
Interest rate related contracts			
Swaps	2,084	105	217
Swaptions	67	-	1
Options	706	1	5
	2,857	106	223
Commodity related contracts	160	22	22
Total derivative contracts	24,879	285	534

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 structured entities.

Cash flow hedged derivatives include vanilla interest rate swaps within macro hedges and cross currency swaps within a structured entity. The Group has notional commitments in the following periods:

Nominal values per time period	2016 £m	2015 £m
Within 0 to 3 months	1,452	4,230
Between 3 and 12 months	6,710	2,028
1 to 5 years	8,063	11,148
Greater than 5 years	66	92
	16,291	17,498

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15. Derivative financial instruments (continued)

The Group has hedged the following forecast future cash flows, which vary primarily with interest or foreign exchange rates. These cash flows are expected to impact the income statement in the following periods:

	Forecast receivable cash flows 2016 £m	Forecast payable cash flows 2016 £m	Forecast receivable cash flows 2015 £m	Forecast payable cash flows 2015 £m
Within 1 year	29	261	47	112
Between 1 and 2 years	16	368	38	235
Between 2 and 3 years	15	59	26	319
Between 3 and 4 years	14	77	21	57
Between 4 and 5 years	8	112	9	68
Greater than 5 years	-	6	-	96
	82	883	141	887

	2016 £m	2015 £m
Gain/(loss) arising from fair value hedges (note 6)		
Hedging instrument	15	109
Hedged item attributable to the hedged risk	(15)	(108)
	-	1

	2016 £m	2015 £m
(Loss)/gain from cash flow hedges due to hedge ineffectiveness (note 6)	(1)	1

16. Loans and advances to customers

	2016 £m	2015 £m
Overdrafts	1,536	1,563
Credit cards	400	376
Lease finance	515	426
Mortgages	21,836	20,504
Other term lending - SME	4,393	4,025
Other term lending - retail	690	763
Other lending	26	30
Gross loans and advances to customers	29,396	27,687
Accrued interest receivable	76	75
Unearned income	(26)	(26)
Deferred and unamortised fee income	(29)	(24)
Impairment provisions on credit exposures (note 17)	(215)	(230)
	29,202	27,482

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16. Loans and advances to customers (continued)

The Group has transferred £5,435m (2015: £5,923m) of mortgages through securitisation arrangements that do not qualify for derecognition from the balance sheet (note 18). 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 £3,208m (2015: £3,413m) (note 18).

Included within gross loans and advances to customers are £1,149m (2015: £1,475m) of mortgages assigned to a bankruptcy remote structured entity, Clydesdale Covered Bonds No. 2 LLP (note 18). These loans provide security for covered bond issuances made by the Group. These transactions do not qualify for derecognition from the balance sheet. At 30 September 2016 there were £797m (2015: £721m) of covered bonds in issue under the covered bond programme (note 18).

The Group also has a portfolio of fair valued business loans and advances of £750m (2015: £1,097m) (note 14). Combined with the above this is equivalent to total loans and advances of £29,952m (2015: £28,579m).

Lease finance

The Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The cost of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £5m (2015: £2m) and £381m (2015: £297m) respectively. The total receivables from finance leases and hire purchase contracts were £8m (2015: £6m) and £482m (2015: £395m) respectively.

Finance lease and hire purchase receivables	2016 £m	2015 £m
Gross investment in finance lease and hire purchase receivables		
Due within 1 year	224	183
Due within 1 to 5 years	288	241
Due after more than 5 years	3	2
	515	426
Unearned income	(25)	(25)
Net investment in finance lease and hire purchase receivables	490	401

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17. Impairment provisions on credit exposures

	2016 £m	2015 £m
Opening balance	230	245
Charge for the year	39	78
Amounts written off	(68)	(100)
Recoveries of amounts written off in previous years	18	12
Other [1]	(4)	(5)
Closing balance	215	230
Specific	64	92
Collective	151	138
	215	230

[1] Other includes the unwind of net present value elements of specific provisions and other minor movements.

	2016 £m	2015 £m
Amounts included in		
Loans and advances to customers (note 16)	215	230
Non-accrual loans		
Loans and advances to customers	214	238
Specific provisions	(64)	(92)
	150	146

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18. Securitisations and covered bonds

Securitisations

The Group has securitised a proportion of its retail mortgage loan portfolio under the Group's master trust securitisation programmes. The securitised mortgage loans have been assigned at principal value to bankruptcy remote structured entities. These structured entities have been funded through the issue of residential mortgage backed debt to third party institutional debt investors. The Group is entitled to any residual income from the vehicles after the debt obligations and senior expenses of the programmes have been met. The securitised debt holders have no recourse to the Group other than the principal and interest (including fees) generated from the securitised mortgage portfolio. The Group continues servicing these mortgage loans in return for an administration fee.

The loans do not qualify for derecognition because the Group remains exposed to the majority of the risks and rewards of the mortgage portfolio, principally the associated credit risk. The securitisation structured entities are consolidated and the securitised mortgage loans retained on the Group's balance sheet. The securitised notes in issue are included within debt securities in issue (note 28).

Covered bonds

A subset of the Group's retail mortgage portfolio has been ring fenced and assigned to a bankruptcy remote Limited Liability Partnership, associated with the covered bond programme, to provide a guarantee for the obligations payable on the covered bonds issued by the Group. Similar to the securitisation programmes, the Group is entitled to any residual income after all payment obligations due under the terms of the covered bonds and senior programme expenses have been met.

The residential mortgages do not qualify for derecognition because the Group retains all of the risks and rewards associated with these mortgage loans. The covered bond partnership is fully consolidated with the loans retained on the consolidated balance sheet and the covered bonds issued are included within debt securities in issue. The covered bond holders have dual recourse; first to Clydesdale Bank PLC on an unsecured basis and second to the LLP under the Covered Bond Guarantee secured against the covered pool mortgage assets. The Group continues servicing these mortgage assets in return for an administration fee.

The assets and liabilities in relation to securitisation and covered bonds in issue at 30 September 2016 within the consolidated balance sheet are as follows:

2016	Securitisation £m	Covered bonds £m	Total £m
At 1 October 2015	3,031	721	3,752
Issuance of debt	750	-	750
Reclassification of notes previously held internally	380	-	380
Repayments	(1,029)	-	(1,029)
Other movements	76	76	152
At 30 September 2016	3,208	797	4,005
Securitised assets	5,435	1,149	6,584

2015	Securitisation £m	Covered bonds £m	Total £m
At 1 October 2014	2,370	1,063	3,433
Issuance of debt	1,207	-	1,207
Repayments	(521)	(400)	(921)
Other movements	(25)	58	33
At 30 September 2015	3,031	721	3,752
Securitised assets	5,923	1,475	7,398

Further information on the liabilities relating to the Group's securitisation and covered bond programmes can be found in note 28.

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18. Securitisations and covered bonds (continued)

Other movements consist of exchange rate movements on currency denominated bonds and fair value hedge accounting adjustments.

Included within the securitisation notes disclosed above are £352m (initial transfer value of £380m less repayments during the year of £28m) of Lannraig debt securities (including accrued interest) which are held by NAB and were previously disclosed within amounts due to related entities (note 12). Following the demerger, these notes are included within debt securities in issue (note 28).

The following table sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the financial assets:

	2016		2015	
	Securitisation £m	Covered bonds £m	Securitisation £m	Covered bonds £m
Fair value of transferred assets	5,417	-	5,870	-
Fair value of associated liabilities	3,233	-	3,048	-
	2,184	-	2,822	-

There were no events in the year that caused any Group transferred financial assets to be derecognised.

The Group has contractual and non-contractual arrangements which may require it to provide financial support to the following types of consolidated structured entities:

Securitisation vehicles

The Group provides credit support to the structured entities via reserve funds through subordinated debt arrangements and by holding junior notes. The carrying value of exposures totalled £20m in subordinated debt (2015: £Nil) and £610m in junior notes held (2015: £593m) at the reporting date. The Group has a beneficial interest in the securitised mortgage portfolio held by the structured entities as at the reporting date of £977m (2015: £1,308m).

Furthermore, the Group has an obligation to repurchase mortgage exposures if certain representations and warranties are breached.

Looking forward through future reporting periods there are a number of date based options on the notes issued by the structured entities which could be actioned by them as issuer. These could require the Group, as sponsor, to provide additional liquidity support.

Covered bonds

At the reporting date the nominal level of over-collateralisation was £599m (2015: £855m) of the outstanding covered bonds. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Furthermore, the Group has an obligation to repurchase mortgage exposures if certain representations and warranties are breached.

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19. Property, plant and equipment

	Freehold land and buildings £m	Long term leasehold land and buildings £m	Building improvements £m	Fixtures and equipment £m	Total £m
Cost or valuation					
At 1 October 2014	11	3	161	114	289
Additions	-	-	10	9	19
Disposals	(1)	-	(7)	(11)	(19)
Transfers	-	-	7	(7)	-
At 30 September 2015	**10**	**3**	**171**	**105**	**289**
Additions	-	-	15	7	22
Disposals	(4)	-	(32)	(12)	(48)
At 30 September 2016	**6**	**3**	**154**	**100**	**263**
Accumulated depreciation					
At 1 October 2014	1	-	92	75	168
Charge for the year	-	-	14	12	26
Disposals	-	-	(4)	(10)	(14)
Transfers	-	-	3	(3)	-
At 30 September 2015	**1**	**-**	**105**	**74**	**180**
Charge for the year (note 7)	-	-	15	10	25
Disposals	-	-	(30)	(11)	(41)
At 30 September 2016	**1**	**-**	**90**	**73**	**164**
Net book value					
At 30 September 2016	**5**	**3**	**64**	**27**	**99**
At 30 September 2015	9	3	66	31	109

Valuations

The Group's freehold and long term leasehold land and buildings are carried at their fair value as determined by independent valuers and the Group's own directors' valuations. Fair values are determined in accordance with guidance published by the Royal Institution of Chartered Surveyors, including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings (Level 3 of the fair value hierarchy as defined in note 37). Valuations are performed annually in July.

There has been no change to the valuation technique during the year. There were no transfers between levels of the fair value hierarchy during the year.

A comparison of the carrying value under the revaluation basis and if the historical cost basis had been used is shown below:

	2016 £m	2015 £m
Carrying value as included under the revaluation basis	8	12
Carrying value if the historical cost basis had been used	7	10

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20. Investment properties

	2016 £m	2015 £m
At 1 October	32	44
Disposals	(10)	(11)
Revaluation	-	(1)
At 30 September	22	32

Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers and the Group's own directors' valuations.

Investment property is compared to property for which there is observable market data about its realisable value on disposal. Adjustments to this observable data are applied for specific characteristics of the property such as the nature, location or condition of the specific asset. Investment properties are classified in Level 3 of the fair value hierarchy as defined in note 37. There has been no change to the valuation technique during the year. There were no transfers between levels of the fair value hierarchy during the year.

During the year 97% (2015: 99%) of the investment properties generated total rental income of £1m (2015: £2m) and incurred operating and administrative expenses of £1m (2015: £1m). The operating and administrative expenses of the investment properties that did not generate rental income were £Nil (2015: £Nil).

21. Investments in controlled entities and associates

	Group	
	2016 £m	2015 £m
At 30 September	-	2

Associates

Associates are undertakings over which the Group exerts significant influence but not control. Investments in associates are accounted for using the equity method. The attributable share of profit and reserves of the associated undertaking is based on the management accounts as at 30 September 2016. The Group has an interest in The Scottish Agricultural Securities Corporation PLC which is registered and operates in Scotland. This investment is accounted for as an associate undertaking on the basis that the Group has significant influence but not control. The associated undertaking's principal activity was the provision of finance and the Group's interest of 33.33% in the issued equity capital of £Nil is held by Clydesdale Bank PLC. The associated undertaking has a 31 March year end. As at 30 September 2016, The Scottish Agricultural Securities Corporation PLC was in the process of being liquidated.

The controlled entities of the Group and Company are provided in note 42.

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21. Investments in controlled entities and associates (continued)

Structured entities

The Group sponsors the formation of structured entities, primarily for the purpose of facilitation of asset securitisation and covered bond transactions to accomplish certain narrow and well defined objectives. Although the Group has no shareholding in these entities, where it is exposed, or has rights to, variable returns from its involvement with the entities and it has the ability to affect those returns through its power over the entity, they are regarded as controlled entities as described in note 2 and are consolidated in the Group's financial statements.

Details of the Group's interests in consolidated structured entities are set out in note 18.

The following companies are consolidated structured entities:

Other controlled entities as at 30 September 2016	Nature of business	Country of incorporation
Clydesdale Covered Bonds No. 2 LLP	Acquisition of mortgage loans	England
Lanark Holdings Limited	Holding company	England
Lanark Trustees Limited	Mortgages trustee	Jersey
Lanark Trustees Limited	Mortgages trustee	England
Lanark Funding Limited	Funding company	England
Lanark Master Issuer PLC	Issuer of securitised notes	England
Lannraig Holdings Limited	Holding company	England
Lannraig Trustees Limited	Mortgages trustee	Jersey
Lannraig Funding Limited	Funding company	England
Lannraig Master Issuer PLC	Issuer of securitised notes	England

On 15 July 2016 the business activities of Lanark Trustees Limited (Jersey) transferred to Lanark Trustees Limited (England)

All of the above controlled entities have a financial year end of 30 September.

Common control business combinations

As described in note 2, business combinations involving entities under common control, where all combining entities are ultimately controlled by the same entity before and after the business combination, are accounted for using the predecessor values method of accounting. This involves recognising assets and liabilities of the acquired business at book values. Any difference between the cost of acquisition and the aggregate book value of the assets and liabilities as of the date of the transfer of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created by the business combination.

Significant restrictions

As is typical for a Group of its size, there are restrictions on the ability of certain subsidiary entities to make distributions of cash or other assets to the parent company. These are considered below:

Contractual requirements - asset encumbrance

The Group uses its financial assets to raise finance in the form of securitisations and through the sale of securities subject to repurchase agreements leading to the assets becoming encumbered. Once encumbered, the assets are not available for transfer around the Group. The assets encumbered in relation to securitisation are disclosed in note 18.

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22. Intangible assets

Capitalised software costs	2016 £m	2015 £m
Cost		
At 1 October	427	354
Additions	99	119
Disposals	-	(41)
Write-off	(63)	(5)
At 30 September	463	427
Accumulated amortisation		
At 1 October	162	141
Disposals	-	(41)
Charge for the year (note 7)	63	57
Write-off	(63)	(5)
Impairment (note 7)	45	10
At 30 September	207	162
Net book value at 30 September	256	265

Impairment testing of capitalised software assets is performed in accordance with IAS 36. The impairment charge follows a detailed review of the recoverable amount of the various assets. Where the benefits associated with the software were substantially reduced from what had originally been anticipated or the asset has been superseded by a subsequent investment, the software has been written down to its recoverable amount. An impairment charge of £45m has been recognised in the year to 30 September 2016 (2015: £10m).

Intangible assets are reviewed annually to consider whether these assets are currently in use. Fully amortised intangible assets of £63m (2015: £5m) that were no longer in use were written off during the year.

23. Deferred tax

Movement in net deferred tax asset	2016 £m	2015 £m
At 1 October	379	339
Recognised in the income statement (note 8)	(232)	37
Recognised directly in equity	9	3
At 30 September	156	379

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23. Deferred tax (continued)

The Group has recognised deferred tax in relation to the following items:

	2016 £m	2015 £m
Deferred tax assets		
Tax losses carried forward	35	273
Capital allowances	127	108
Cash flow hedge reserve	1	4
Impairment provision on credit exposures	-	3
Employee equity based compensation	2	1
Defined benefit pension scheme deficit	18	-
	183	389
Deferred tax liabilities		
Defined benefit pension scheme surplus	-	(10)
Cash flow hedge reserve	(21)	-
Gains on unlisted available for sale investments	(6)	-
	(27)	(10)
Net deferred tax asset	156	379

At 30 September 2016, the Group had an unrecognised deferred tax asset of £202m (2015: £16m) representing trading losses with a gross value of £1,186m (2015: £80m). 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. Under current UK tax legislation there is no prescribed time period for loss utilisation, however, as outlined in the "Emerging/principal risks and uncertainties" section of the business and financial review, the UK tax environment for banks in particular is unsettled and has been subject to repeated change and increased restrictions, principally on the use of historic losses as discussed below. As a result, the period over which brought forward losses will be used to offset taxable profits in the future has lengthened considerably.

The statutory rate of UK corporation tax is 20% from 1 April 2015. A series of reductions in that rate have 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. In addition, from 1 April 2016, only 25% of a bank's profits can be relieved by brought forward losses, significantly extending the timeframe taken to realise value for existing tax losses. This is a further significant restriction on top of the 50% limit imposed at 1 April 2015.

As a result and in accordance with IAS 12, the directors have assessed the recoverability of the deferred tax assets, and have chosen to derecognise deferred tax assets relating to those losses that the Group does not expect to be able to utilise within the Group's current corporate planning horizon. The combined impact of the legislative changes outlined above, and the directors' reassessment of the recoverable horizon, is £226m, within a total deferred tax charge (Note 8) of £232m.

The deferred tax asset of £0.6m and liability of £21.3m in respect of cash flow hedge reserves (2015: £4.0m asset) relate to different entities within the Group.

24. Other assets

	2016 £m	2015 £m
Prepayments and accrued income	29	35
Other (including items in the course of collection)	159	142
	188	177

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25. Due to other banks

	2016 £m	2015 £m
Transaction balances with other banks	23	-
Securities sold under agreements repurchase [1]	1,226	-
Deposits from other banks	60	393
	1,309	393

[1] The underlying securities sold under agreements to repurchase have a fair value of £1,657m (2015: £Nil).

26. Due to customers

	2016 £m	2015 £m
Non-interest bearing demand deposits	2,160	1,986
Interest bearing demand deposits	19,328	18,786
Term deposits	5,454	5,416
Other wholesale deposits	12	94
	26,954	26,282
Accrued interest payable	136	125
	27,090	26,407

Included within term deposits is £Nil (2015: £3m) relating to the Group's associated entity (notes 12 and 21).

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27. Provision for liabilities and charges

	2016 £m	2015 £m
PPI redress provision		
Opening balance	774	515
Charge to the income statement (note 7)	44	390
Charge reimbursed under Conduct Indemnity	406	-
Utilised	(499)	(131)
Closing balance	725	774
Customer redress and other provisions		
Opening balance	214	413
Charge to the income statement (note 7)	8	76
Charge reimbursed under Conduct Indemnity	27	-
Utilised	(148)	(275)
Closing balance	101	214
Restructuring provision [(1)]		
Opening balance	18	24
Charge to the income statement	39	17
Utilised	(31)	(23)
Closing balance	26	18
Total provisions for liabilities and charges	852	1,006

(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 30 September 2016 are 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).

The Group has provided its best estimate of conduct risk related liabilities at 30 September 2016 which have arisen as a result of its historical products and past sales practices.

To arrive at best estimates, management have 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 £450m was required incorporating the Group's estimate of the impact of CP 15/39 and a proposed time bar for complaints in summer 2018. 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 (£44m) as a result of the Capped Indemnity. Following the FCA's updated proposal in respect of the time bar and Plevin in CP 16/20 issued on 26 July 2016, the provision was reassessed in the light of these proposals and recent experience. No further change was made. The total provision raised to date in respect of PPI is £1,646m (2015: £1,196m), with £725m of this remaining (2015: £774m) comprising £299m for customer initiated complaints and proactive customer contact (2015: £301m); £257m for the remediation of complaints closed prior to August 2014 (2015: £270m); and £169m for costs of administering the redress programme (2015: £203m).

To 30 September 2016, the Group has received 282,000 complaints and has allowed for 59,000 further walk in complaints.

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27. Provision 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, in addition to committing to undertake a full review of PPI complaints that were closed prior to August 2014 (approximately 180,000). The Group has begun to reopen these complaints and review the original decisions reached in light of the new PPI complaint handling processes. The provision at 30 September 2016 includes a redress provision of £257m for this review.

In addition to the remediation activity described above, the Group is undertaking a past business review (PBR) of certain PPI sales 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 provision increase booked in March incorporated a revised estimate of the cost of contacting and redressing, where appropriate, customers who have faced actual detriment or may have experienced potential detriment but who have not actually raised a claim. Proactive customer mailings commenced in March 2016 and will be complete by the end of the calendar year. Key inputs to the calculation of the costs estimate, such as the level of customer response to mailings, are not currently known but have been based on relevant historical experience and related industry data. Actual experience to date has been below the assumptions used but further customer responses will be received.

The increase in provision, recorded at 31 March 2016, took 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 proposed but delayed 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 of 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.

The table below sets out the key assumptions and the effect on the provision at 30 September 2016 of future, potential, changes in key assumptions:

Assumptions	Change in assumption	Sensitivity [1]
Number of expected future customer initiated complaints	+/-10%	£16m
Uphold rates:		
Future complaints	+/-1%	£3m
Pre August 2014 complaints review	+/-1%	£6m
Customer contact response rate		
PBR customer contact response rate [2]	+/-1%	£4m
Average redress costs [3]	+/-1%	£5m

[1] There are inter-dependencies between several of the key assumptions which add to the complexity of the judgements the Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged. The sensitivities disclosed do not incorporate the impact, if any, on the administrative cost element of the provision.

[2] The Group's current estimate includes an expected customer response rate of 40%. Approximately 85,000 proactive customer mailings will be sent.

[3] Sensitivity to a change in average redress across customer initiated complaints, pre August 2014 complaints review and PBR customer populations.

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27. Provision for liabilities and charges (continued)

PPI redress (continued)

The number of complaints received is monitored against past experience and future expectations and the Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

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 IRHPs.

In 2012 the FSA announced that it had reached agreement with a number of UK banks, including the Group, in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium sized businesses. The Group implemented a programme to identify small and medium sized customers that may have been affected and where due, pay financial redress. On 31 March 2015 the FCA confirmed the closure of the formal industry wide redress programme to new entrants.

The Group also undertook a secondary review of all past FRTBL complaints which were not in the scope of the formal review. Where the secondary complaint assessment identified a different outcome, the customer has been contacted and, if appropriate, redress offered. The Group is also dealing with a number of new complaints from customers in relation to FRTBLs.

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 within the next six months, 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 year the Group has raised further provisions of £34m for these matters, the majority of which were offset by the Conduct 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 (note 33). These factors could result in the total cost of review and redress varying materially from the Group's current 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 year £1m (2015: £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 demerger date (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.

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27. Provision 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	**1,700**
Capital injected into CYBI prior to demerger [1]	(120)
Drawn in period to 30 September 2015[2]	(465)
Undrawn Conduct Indemnity as at 30 September 2015	1,115
Drawn in the period to 30 September 2016	(433)
Undrawn balance as at 30 September 2016	**682**

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

[2] £465m 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 year £45m (2015: £17m) was charged to the income statement of which £6m (2015: £Nil) was charged directly to the income statement and £39m (2015: £17m) was provided for with £31m (2015: £23m) of the total provision being 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.

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28. Debt securities in issue

	Subordinated debt	Securitisation	Covered bonds	2016 Total £m	2015 Total £m
Carrying value	477	3,208	698	4,383	3,714[(1)]
Fair value hedge adjustments	-	-	99	99	38
Total debt securities	477	3,208	797	4,482	3,752
Accrued interest payable	3	6	10	19	14
	480	3,214	807	4,501	3,766

[(1)] £3,017m related to securitisation and £697m related to covered bonds.

There were no new issuances of covered bonds during the year. The following new issuance of securitised debt occurred:

- 4 August 2016 - GBP 750m Lanark 2016-1 1A.

The following securitised debt redemptions occurred during the year in line with the scheduled programme terms:

- 22 February 2016 - USD 800m Lanark 2012-2 1A note;
- 22 August 2016 - USD 300m Lanark 2013-1 1A1 note;
- 22 August 2016 - GBP 350m Lanark 2013-1 1A2 note.

On 8 February 2016, the Group repurchased £475m of subordinated debt from NAB at a market value of £474m, resulting in a gain on debt restructure of £1m included within other income (note 6). On the same day the Group issued £475m of 10 year, non-call five years, fixed 5% subordinated debt with a final maturity date of 9 February 2026 to NAB.

Following the demerger from NAB on 8 February 2016, subordinated debt and securitised debt issued to NAB, previously included within amounts due to related entities (note 12), were included within debt securities in issue. Comparative financial information has not been restated. In September 2016 the subordinated debt was remarketed and sold by NAB. Accordingly at 30 September 2016 the debt was no longer held by NAB.

	2016 £m	2015 £m
10-year, non-call five years with a final maturity of 9 February 2026 - Fixed 5%	477	-
Accrued interest payable	3	-
Total subordinated debt	480	-

Details of the terms and conditions of the notes issued by Clydesdale Bank PLC as at 30 September 2016 were as follows:

Issue date	Currency	Carrying value £m	Coupon rate	Call date
Class A RMBS				
27 July 2012	GBP	440	3M GBP LIBOR + 1.63%	22 November 2017
19 March 2014	EUR	214	3M EURIBOR + 0.40%	22 August 2017
19 March 2014	GBP	311	3M GBP LIBOR + 0.50%	22 November 2018
11 December 2014	EUR	389	3M EURIBOR + 0.40%	22 August 2018
11 December 2014	GBP	274	3M GBP LIBOR + 0.60%	22 February 2020
6 August 2015	GBP	239	3M GBP LIBOR + 0.50%	22 August 2018
6 August 2015	EUR	241	3M EURIBOR + 0.45%	22May 2021
4 August 2016	GBP	748	3M GBP LIBOR + 1.00%	22 February 2019
Class A BTL RMBS				
30 September 2011	GBP	352	3M GBP LIBOR + 2.20%	19 November 2017
		3,208		
Covered bonds				
31 May 2012	GBP	797	4.63%	8 June 2026
Total securitised notes and covered bonds (note 18)		4,005		

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29. 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 a 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, with the trustee 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:

	2016 £m	2015 £m
Active members' defined benefit obligation	(1,264)	(891)
Deferred members' defined benefit obligation	(1,776)	(1,299)
Pensioner and dependent members' defined benefit obligation	(1,497)	(1,323)
Total defined benefit obligation	(4,537)	(3,513)
Fair value of scheme assets	4,462	3,565
Net defined benefit pension (liability)/asset	(75)	52
Post-retirement medical benefits obligations	(4)	(4)

IAS 19 allows the recognition of an asset, which reflects the Group's ability to recover a surplus either through reduced contributions in the future or through refunds from the Scheme following the settlement of plan assets once all members have left the Scheme.

The Group has implemented a number of reforms to the Scheme to manage the liability. It closed the Scheme to new members in 2004 and has determined benefits accruing after April 2006 on a career average revalued earnings basis. The principal pension available to new employees since the closure of the Scheme is a defined contribution scheme, Total Pension. The Total Pension income statement charge for the year is shown in note 7.

The last scheme funding valuation was at 30 September 2013 with a calculated deficit of £450m. In the recovery plan dated 7 May 2014 the Group agreed to make the following contributions to eliminate the deficit: £65m on 1 October 2013; £150m by 30 June 2014; £50m on 1 October 2017; thereafter £50m annually until 1 October 2021; and £55m on 1 October 2022. Work in relation to the 30 September 2016 scheme funding valuation is presently under way.

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29. Retirement benefit obligations (continued)

Reconciliation of the net defined benefit pension (liability)/asset	2016 £m	2015 £m
Opening net defined benefit pension scheme asset	52	49
Service cost	(31)	(11)
Interest on net defined benefit (liability)/asset	3	3
Remeasurement effects recognised in SOCI	(179)	(36)
Employer contributions	84	51
Administrative expenses	(4)	(4)
Closing fair value of net defined benefit pension scheme (liability)/asset	(75)	52

Reconciliation of the defined benefit pension scheme assets	2016 £m	2015 £m
Opening fair value of defined benefit pension scheme assets	3,565	3,269
Interest income on scheme assets at discount rate	135	133
Return on scheme assets greater than discount rate	791	206
Employer contributions (note 12)	84	51
Benefits paid	(90)	(84)
Transfer payments	(19)	(6)
Administrative costs paid	(4)	(4)
Closing fair value of defined benefit pension scheme assets	4,462	3,565

Reconciliation of the defined benefit pension scheme obligations	2016 £m	2015 £m
Opening defined benefit pension scheme obligations	(3,513)	(3,220)
Current service cost	(27)	(27)
Past service (cost)/credit	(4)	16
Interest expense on the defined benefit obligation	(132)	(130)
Actuarial gain - experience adjustments	51	40
Actuarial loss - financial assumptions	(1,021)	(282)
Benefits paid from scheme assets	90	84
Transfer payments	19	6
Closing defined benefit pension scheme obligations	(4,537)	(3,513)

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29. Retirement benefit obligations (continued)

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2016 £m	2015 £m
Quoted		
Equities	784	645
Government bonds	1,640	1,382
Global sovereign bonds	38	49
Corporate bonds	968	767
Infrastructure	254	217
Secure income alternatives	124	67
Derivatives [1]	440	229
Other	6	45
Cash	93	32
Unquoted		
Property	115	132
Fair value of defined benefit pension scheme assets	**4,462**	3,565

[1] Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme's liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

The Scheme is not invested in any of the Group's own financial instruments.

Through its defined benefit pension plan and post-employment medical plan, the Group is exposed to a number of risks. The main risk to the Group is that additional contributions are required if the Scheme's assets are not sufficient to pay for the benefits (which will be influenced mainly by inflation and the longevity of members). The level of equity returns will be a key factor in the overall investment return. The investment portfolio is also subject to a range of other risks typical of the assets held, in particular credit risk on bonds and exposure to the property market.

The Trustee has implemented an investment structure (including physical assets and derivatives) that seeks to reduce the Scheme's exposure to inflation and interest rate risks. The current hedge ratio is 50% of liabilities when measured on a self-sufficiency basis. This strategy reflects the Scheme's liability profile and the Trustee's and the Group's attitude to risk. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

Amounts recognised in the income statement	2016 £m	2015 £m
Current service cost	27	27
Past service cost/(credit)	4	(16)
Net interest on net defined benefit (liability)/asset	(3)	(3)
Defined benefit expense for the year	**28**	8
Administration costs incurred	4	4
Cost recognised in the income statement (note 7)	**32**	12

During the year ended 30 September 2015 the Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After the taking of independent financial advice the member can elect to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. Accounting for this change resulted in a one-off credit to the income statement of £18m in the prior year (shown within past service costs).

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29. Retirement benefit obligations (continued)

In the current and prior year past service cost of £4m (2015: £2m) relates to pension enhancements, which were agreed as part of redundancy and early retirement entitlements and in both years these were fully offset in the income statement by a corresponding release from the restructure provision.

Amounts recognised in the statement of comprehensive income	2016 £m	2015 £m
Opening cumulative actuarial losses	(670)	(634)
Actuarial gain due to liability experience adjustments	51	40
Actuarial loss due to liability assumption changes	(1,021)	(282)
Return on scheme assets greater than discount rate	791	206
Cumulative actuarial losses recognised in the statement of comprehensive income	(849)	(670)

Actuarial assumptions	2016 % p.a.	2015 % p.a.
Financial assumptions		
Discount rate	2.38	3.80
Inflation (RPI)	3.02	3.25
Inflation (CPI)	2.02	2.25
Career average revalued earnings (CARE) revaluations:		
Pre 31 March 2012 benefits (RPI)	3.02	3.25
Post 31 March 2012 benefits (CPI capped at 5% per annum)	2.02	2.25
Pension increases (capped at 2.5% per annum)	2.05	2.10
Pension increases (capped at 5% per annum)	2.94	3.15
Rate of increase for pensions in deferment	2.02	2.25

Demographic assumptions Post retirement mortality:	2016 Years	2015 Years
Current pensioners at 60 - male	27.7	27.6
Current pensioners at 60 - female	29.6	29.5
Future pensioners at 60 - male	29.2	29.1
Future pensioners at 60 - female	31.1	31.0

The table below sets out the sensitivity of the defined benefit obligation and pension cost to realistic changes in the key actuarial assumptions:

Assumption change	Impact on defined benefit obligation £m	Impact on pension cost £m
Discount rate		
+0.25%	(234)	(8)
-0.25%	253	7
Inflation		
+0.25%	170	5
-0.25%	(167)	(5)
Life expectancy		
+1 year	159	5
- 1 year	(152)	(4)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

The discounted mean term of the defined benefit obligation at 30 September 2016 is 22 years. The expected contributions for the year ending 30 September 2017 are £Nil and expected benefit payments for the year ending 30 September 2017 are £85m.

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30. Other liabilities

	2016 £m	2015 £m
Notes in circulation	1,912	1,791
Accruals and deferred income	152	136
Other	146	146
	2,210	2,073

31. Called up share capital

As a consequence of the insertion of the new holding company, share capital in the current period reflects CYBG PLC. The comparative reflects CYBI.

Allotted, called up and fully paid	2016 Number of shares	2015 Number of shares	2016 £m	2015 £m
Ordinary shares				
Opening ordinary share capital	2,232,012,512	1,882,012,500	223	1,882
Issued during the year	-	350,000,012	-	350
Share for share exchange	(1,352,697,256)	-	876	-
Share capital reduction	-	-	(1,011)	(2,009)
Issued under employee share schemes	2,216,596	-	-	-
Closing ordinary share capital	881,531,852	2,232,012,512	88	223

On 18 May 2015, the Company was incorporated as a public limited company with 1 ordinary £1 share. On 11 September 2015, 49,999 ordinary shares of £1 were issued.

On 20 November 2015, the 50,000 ordinary shares were consolidated into 1 ordinary share of £50,000 and then immediately divided into ordinary shares with a nominal value of £1.25 each in the capital of the Company on the basis of 40,000 divided ordinary shares for every 1 consolidated ordinary share.

Listing on the LSE and ASX

On 3 February 2016 CYBG PLC obtained a Premium listing on the LSE and listed on the ASX with effect from 4 February 2016.

On 8 February 2016, CYBG PLC became the new holding company for the CYBI Group by way of a share for share exchange with its then sole shareholder, NAB, and became unconditionally listed on the London Stock Exchange. As a consequence of the insertion of the new holding company, share capital, share premium and the capital reorganisation reserve in the current period reflect the capital structure of CYBG PLC whilst the comparative reflects that of CYBI. During the period 2,216,596 ordinary shares were issued under employee share schemes with a nominal value of £0.2m.

Share for share exchange

On 8 February 2016, CYBG PLC issued 879,275,256 £1.25 ordinary shares in exchange for the acquisition of the entire share capital of CYBI which comprised 2,232,012,512 £0.10 ordinary shares. The consideration for the issuance of CYBG PLC shares was determined by applying the 5-day volume weighted average price (VWAP) of CYBG shares and CYBG Chess Depositary Instruments (CDIs) over the first 5 trading days from 3 February 2016, giving a value of £1,732m. The nominal value of the shares issued was £1,099m and the balance of £633m was transferred to a merger reserve in accordance with Section 612 of the Companies Act.

Share capital reduction

Following court approval, on 10 February 2016, the nominal share capital of the Company was reduced to £0.10 per share by the cancellation of £1.15 from the nominal value of each ordinary share; as a result, £1,011m was transferred to retained earnings.

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32. Total equity

As a consequence of the insertion of the new holding company, share capital, share premium and the capital reorganisation reserve in the current period reflect CYBG PLC. The comparative reflects CYBI.

	2016 £m	2015 £m
Share capital (note 31)	88	223
Share premium	-	670
Total share capital and share premium	88	893
Other equity instruments	450	450
Capital reorganisation reserve	(839)	-
Merger reserve	633	-
Equity based compensation reserve	6	3
Asset revaluation reserve	1	2
Available for sale reserve	27	12
Cash flow hedge reserve	66	(13)
Total other reserves	100	4
Retained earnings	2,779	2,096
Total equity	3,211	3,443

Share premium

On 19 June 2015, 1 ordinary share was issued by CYBI to National Equities Limited for a nominal value of £0.10 and a premium of £49,999,999.90. On 24 September 2015, one ordinary share was issued by CYBI to National Equities Limited for a nominal value of £0.10 and a premium of £619,999,999.90.

There is no share premium held within CYBG PLC.

Other equity instruments

Other equity instruments represent AT1 notes. On 20 December 2013, Perpetual Capital Notes (6m LIBOR + 763bps) were issued to NAB with a principal amount of £300m. These were perpetual securities with no fixed maturity or redemption date and are structured to qualify as AT1 instruments under CRD IV. A further £150m Perpetual Capital Notes (6m LIBOR + 690bps) were issued to NAB on 29 December 2014. These AT1 notes were repurchased by CYBI on 8 February 2016 for £457m. The resulting loss of £7m (£5m net of tax) was recognised directly within retained earnings.

Subsequently, on 8 February 2016, the Company issued Perpetual Contingent Convertible Notes (fixed 8%) with a principal amount of £450m to NAB with an optional redemption on 8 December 2022. In September 2016 these notes were remarketed by NAB, accordingly at 30 September 2016 they are held by third party investors other than NAB.

AT1 distributions of £35m were paid in the current period (being £28m net of tax) (2015: £18m paid, £14m net of tax).

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. 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

As described in note 31, 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.

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32. Total equity (continued)

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.

In comparative periods the equity based compensation reserve represents the outstanding fair value amount in respect of share based payment expense recharged by the Group's former ultimate parent, NAB, which 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 investments reserve records the gains and losses arising from changes in the fair value of available for sale financial assets.

Cash flow hedge reserve

The cash flow hedge reserve records fair value revaluations of derivatives designated as cash flow hedging instruments to the extent that they are effective.

As at 30 September 2016, the cash flow hedge reserve comprised crystallised fair value losses arising from de-designated and matured cash flow hedges of £7.1m (2015: £2.2m loss) offset by deferred gains on derivatives in ongoing cash flow hedges of £94.2m (2015: £15.2m loss). The balance on the cash flow hedge reserve within the consolidated statement of changes in equity is net of tax.

A £2m gain (2015: £17m gain) was recycled into the income statement in relation to de-designated and matured hedges in the period. A £1m loss (2015: £1m gain) was transferred to the income statement due to ineffectiveness arising from cash flow hedges.

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33. Contingent liabilities and commitments

The table below sets out the 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 is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Contingent liabilities	2016 £m	2015 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	19	25
Due between 3 months and 1 year	44	13
Due between 1 year and 3 years	9	9
Due between 3 years and 5 years	3	2
Due after 5 years	48	52
No specified maturity	-	8
	123	109

Other credit commitments	2016 £m	2015 £m
Undrawn formal standby facilities, credit lines and other commitments to lend at call	7,690	7,801

Capital commitments

The Group had future capital expenditure which had been contracted for but not provided for in the financial statements at 30 September 2016 of £2m (2015: £2m).

Operating lease commitments

Leases as lessor	2016 £m	2015 £m
Future minimum lease payments under non-cancellable operating leases are:		
Within 1 year	2	2
Between 1 year and 5 years	4	6
Over 5 years	1	2
	7	10
Leases as lessee		
Future minimum lease payments under non-cancellable operating leases are:		
Within 1 year	29	31
Between 1 year and 5 years	94	95
Over 5 years	117	122
	240	248

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33. Contingent liabilities and commitments (continued)

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 and an accrual of £8m (2015: £9m) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

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 27 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 its former parent (note 27). 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.

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34. Notes to the statement of cash flows

	2016 £m	2015 £m
Adjustments included in the profit/(loss) before tax		
Interest receivable	(1,101)	(1,110)
Interest payable	295	323
Depreciation and amortisation (note 7)	88	83
Net gain on capital and debt restructure (note 6)	(1)	(61)
Loss on sale of tangible fixed assets [1]	-	1
Transfer from cash flow hedge reserve	1	(1)
Derivative financial instruments fair value movements	(10)	(2)
Impairment losses on credit exposures (note 17)	39	78
Impairment losses on software (note 7)	45	10
Fair value movement on investment properties	1	-
	(643)	(679)
Changes in operating assets		
Net (increase)/decrease in:		
Balances with supervisory central banks	1	(2)
Due from other banks	(826)	(113)
Derivative financial instruments	(63)	1
Financial assets at fair value through profit or loss	346	478
Loans and advances to customers	(1,758)	(1,663)
Due from customers on acceptances	-	1
Defined benefit pension assets	-	(39)
Other assets	15	(157)
	(2,285)	(1,494)
Changes in operating liabilities		
Net increase/(decrease) in:		
Due to other banks	960	(567)
Derivative financial instruments	60	(39)
Financial liabilities at fair value through profit or loss	(19)	(23)
Due to customers	672	2,380
Liabilities on acceptances	-	(1)
Provisions for liabilities and charges	(154)	54
Defined benefit pension obligations	(52)	-
Other liabilities	120	179
	1,587	1,983

[1] Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	2016 £m	2015 £m
Cash and balances with central banks (note 11)	5,912	6,387
Other assets	111	86
Due to other banks	(25)	(72)
Due to related entities	-	(33)
Other liabilities	(48)	(31)
	5,950	6,337

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35. Employees

The average number of full time equivalent employees of the Group during the year was made up as follows:

	2016 Number	2015 Number
Managers	2,460	2,449
Clerical staff	4,258	4,367
	6,718	6,816

The average monthly number of employees was 7,567 (2015: 7,694).

All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

36. Equity based compensation

Share based payment charges comprise:

	2016 £m	2015 £m
Equity settled share based payments	5	7

The 2015 and 2016 figures include awards under the Group's and NAB share plans. The charges under the NAB share plans were classified as equity settled share based payments up to the demerger date and are included in the total above. Following the demerger these plans no longer meet the definition of share based payments under IFRS 2: *Share based payments*, accordingly, the total above excludes NAB share plan costs after 8 February 2016.

CYBG awards

The Group implemented a number of share plans with the following awards made during the year:

Plan	Nature	Awards made during 2016	Award date
Deferred Equity Plan (DEP)	Conditional rights to shares	2015 Demerger LTIP award	11 Feb 2016 31 May 2016
		2015 Deferred bonus awards	11 Feb 2016
		2015 Upfront retained bonus awards	11 Feb 2016
		Commencement awards	4 March 2016
Long Term Incentive Plan (LTIP)	Conditional rights to shares	No awards made	N/A
Share Incentive Plan (SIP)	Non-conditional share award	Demerger Freeshare award	4 March 2016
Save As You Earn Plan (SAYE)	Options to purchase shares at the end of the saving period	No awards made	N/A

Further detail on each award is provided below:

Deferred Equity Plan (DEP)

Under the plan employees were awarded conditional rights to CYBG PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards include:

- The upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Bank's deferral policy.
- Buyout of equity from previous employment for senior new hires.
- Demerger awards which are also subject to the achievement of performance conditions over a three year period. Details of the performance conditions are set out in the Directors Remuneration Report.

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36. Equity based compensation (continued)

Share Incentive Plan (SIP)

Eligible employees at the date of the award, were awarded Group shares, which are held in the Share Incentive Plan Trust (SIP Trust). Awards are not subject to performance conditions and participants are the beneficial owners of the shares granted to them, but not the registered owners. Voting rights over the shares are normally exercised by the registered owner at the direction of the participants. For the demerger award made in March 2016, leavers (with the exception of gross misconduct) retain their awards but they must withdraw their shares from the SIP Trust.

Awards /rights made during the year

	Number outstanding on incorporation	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2016	Average fair value of awards at grant
Deferred Equity Plan						
2015 Demerger	-	2,235,204	-	-	2,235,204	196.96
2015 Bonus	-	1,749,431	(10,037)	(250,004)	1,489,390	195.17
2015 Commencement	-	111,127	-	-	111,127	194.67
Share Incentive Plan						
2016 Demerger Award	-	1,966,592	(2,304) [1]	(141,312) [2]	1,822,976	194.67

[1] Forfeited shares remain in the SIP Trust
[2] Shares withdrawn from SIP Trust on leaving the Group.

Determination of grant date fair values

Participants of the DEP and LTIP plans are not entitled to dividends until the awards vest, but the number of shares which vest may be increased to reflect the value of dividends that would have been paid up to the end of the holding period for the awards. Accordingly, the grant date fair value of the awards with only service conditions and/or non-market performance conditions has been taken as the market value of the Company's ordinary shares at the grant date. Where awards are subject to non-market performance conditions, an estimate is made of the number of awards expected to vest in order to determine the overall share-based payment charge to be recognised over the vesting period.

The Group has not issued awards under any CYBG plan with market performance conditions.

Legacy NAB awards

Prior to the demerger, employees of the Group received awards under NAB share plans as described below. No deferred bonus, LTIP, or freeshare awards were made under NAB plans in December 2015 due to the planned demerger.

Plan	Nature	Awards
National Australia Bank Staff Share Ownership Plan	Conditional NAB shares which are held in trust	1. Commencement awards 2. Deferred bonus awards (excluding Executive Leadership Team) 3. Upfront bonus awards
National Australia Bank Performance Rights Plan	Conditional NAB Performance rights	4. Deferred bonus awards to the Executive Leadership Team 5. Long Term Incentive awards
NAB Share Incentive Plan	Non-conditional NAB shares through SIP Trust	6. Freeshare awards

National Australia Bank Staff Share Ownership Plan

The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards included:

- The upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Bank's deferral policy.
- Buyout of evidenced equity from previous employment for senior new hires.

36. Equity based compensation (continued)

National Australia Bank Performance Rights Plan

Legacy NAB awards made as performance rights over NAB shares, subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards included:

- Deferred elements of bonus awards for members of the Executive Leadership team where required to comply with the PRA Remuneration Code or the Bank's deferral policy.
- LTIP awards were also subject to performance hurdles (both internal and external) are measured at the end of a four to five year restriction period. During the restriction period an executive's performance rights will lapse if performance hurdles are not met. A variety of performance measures are used for different grants of long term incentives including Total Shareholder Return (TSR) compared against peer companies, and regional or NAB Group ROE and cash earnings. The measures used depend on the level and impact of the participant's role, the business or region in which they work and the relevant programme.

Each performance right is exchanged for one fully paid ordinary share in NAB Limited upon exercise, subject to standard adjustments for capital actions. No exercise price is payable by the holder on exercise of performance rights.

NAB Freeshare awards

Eligible employees in December 2014 were awarded NAB shares, held in the NAB SIP Trust. With the exception of gross misconduct, awards were not subject to service or performance conditions and vested on the date of award. As a result of the demerger, all participants were treated as good leavers from the SIP and their NAB shares were withdrawn from the SIP Trust.

NAB Performance rights related to CYBG Group employees	2016 number	2015 number
Outstanding at 1 October	281,066	259,093
Granted during the year		136,812
Forfeited during the year	(21,995)	(103,965)
Exercised during the year	(19,471)	(10,874)
Outstanding at 8 February 2016	**239,600**	n/a
Exercisable at 8 February 2016	**-**	n/a
Outstanding at 30 September	n/a	281,066
Exercisable at 30 September	n/a	18,480

No performance rights lapsed in the period to 8 February 2016 (2015: Nil).

Of the performance rights exercised in the period to 8 February 2016, 4,233 related to long term incentive awards (2015: Nil).

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37. Fair value of financial instruments

(a) Fair value of financial instruments recognised on the balance sheet 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 are described in the footnotes to the tables.

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.

	30 September 2016					30 September 2015				
			Fair value measurement using:					Fair value measurement using:		
	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets										
Loans and advances to customers	**29,202**	**29,298**	**-**	**1,076**	**28,222**	27,482	27,537	-	1,111	26,426
Financial liabilities										
Due to customers	**27,090**	**27,114**	**-**	**27,114**	**-**	26,407	26,423	-	26,423	-
Due to related entities	**-**	**-**	**-**	**-**	**-**	998	1,017	-	1,017	-
Debt securities in issue	**4,501**	**4,592**	**459**	**4,133**	**-**	3,766	3,869	-	3,869	-

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37. Fair value of financial instruments (continued)

(a) Fair value of financial instruments recognised on the balance sheet at amortised cost (continued)

The Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) *Loans and advances to customers* - the fair value of loans and advances are determined by firstly segregating them into portfolios of similar characteristics. Contractual cash flows are then adjusted for expected credit losses and expectations of customer behaviour based on observed historic data. The cash flows are then discounted using current market rates for instruments of similar terms and maturity to arrive at an estimate of their fair value. Certain variable rate loan portfolios are discounted using market rates on similar loans offered by the Group at the valuation date.

(b) *Due to customers* - the fair value of deposits is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(c) *Amounts due to related entities* - the fair value of subordinated debt and notes issued to related entities was determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity. The comparable instruments are presented within 'Debt securities in issue' in the current year. All other amounts due to related entities were repayable under varying maturities but were materially repriced every 3-6 months relative to market rates.

(d) *Debt securities in issue* - The fair value is taken directly from quoted market prices where available or determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(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 37(a) above.

	Fair value measurement as at 30 September 2016				Fair value measurement as at 30 September 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial assets	-	585	-	585	-	285	-	285
AFS investments – listed	1,695	-	-	1,695	1,447	-	-	1,447
AFS investments – unlisted	-	-	29	29	-	-	8	8
AFS – other	-	-	7	7	-	-	7	7
Other financial assets at fair value	-	-	750	750	-	-	1,097	1,097
Total financial assets at fair value	1,695	585	786	3,066	1,447	285	1,112	2,844
Financial liabilities								
Derivative financial liabilities	-	598	-	598	-	534	-	534
Other financial liabilities at fair value	-	-	48	48	-	-	67	67
Total financial liabilities at fair value	-	598	48	646	-	534	67	601

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37. Fair value of financial instruments (continued)

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

The Group's fair values for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) *Derivative financial assets and liabilities* - the fair values of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices as at the balance sheet date, discounted cash flow models or option pricing models as appropriate.

(b) *Available for sale investments*

- *Listed* (level 1) - the fair values of listed investments are based on quoted closing market prices.
- *Unlisted* (level 3) - includes the unlisted equity investment in VocaLink of £25m (2015: £5m) (see note 13). The valuation of these shares is based on offers received for the Group's shareholding as the best indicator of the fair value of these shares at the reporting date. Unlisted (level 3) also includes £2m for the Group's US Dollar denominated convertible preference shares in Visa Inc. (see note 13). The fair value of the preference shares has been calculated by taking the period end NYSE share price for Visa Inc. and discounting for illiquidity and clawback related to contingent litigation. For other unlisted equity and debt investments, the Group's share of the net asset value or the transaction price respectively are considered the best representation of the exit price and are the Group's best estimates of fair value.
- *Available for sale other* (level 3) - the other available for sale financial asset represents deferred consideration receivable and consists of the rights to future commissions. The valuation is determined from a discounted cash flow model incorporating estimated attrition rates and investment growth rates appropriate to the underlying funds under management.

(c) *Other financial assets and liabilities at fair value* - fair values are derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument

There were no transfers between Level 1 and 2 in the year.

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37. Fair value of financial instruments (continued)

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:	2016		
	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)**

Level 3 movement analysis:	2015		
	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	7	1,583	(91)
Unrealised gains [(1)] in profit or loss	-	2	2
Purchases	8	-	-
Settlements [(2)]	-	(488)	22
Balance at the end of the year	15	1,097	(67)

(1) Net gain 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 include a realised loss of £5m (2015: loss of £33m) 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 6).

There were no transfers into or out of Level 3 in the year ended 30 September 2016 (2015: £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.

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37. Fair value of financial instruments (continued)

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 30 September 2016.

	Fair value £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	7	Discounted cash flow	Customer attrition rate	10%	30%
Other financial assets at fair value	750	Discounted cash flow	Portfolio lifetime PD	3.3%	11.4%

The Group has £48m (2015: £67m) 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.

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 £5m and vice versa.

As disclosed above, the fair value of the Group's investment in VocaLink is based on the offer set out in the definitive agreement to acquire 92.4% of VocaLink Holdings Limited announced by MasterCard on 21 July 2016. Whilst this transaction is subject to regulatory approval and other customary closing conditions, the Group expects that the sale will be completed under these terms. The sensitivity of fair value to possible changes in the cash offer or the associated future earn-out entitlements (which have a limited range of potential variation) has not therefore been modelled.

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.

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38. Pillar 3 disclosures

Basel III Capital Requirements Directive IV

Pillar 3 disclosure requirements are set out in Part Eight of the Capital Requirements Regulation (CRR). The consolidated disclosures of the Group, for the 2016 financial year, will be issued concurrently with the Annual Report and Accounts and will be found at www.cybg.com/investor-centre/financial-results/.

39. Events after the balance sheet date

On 25 October 2016 the Group announced that it has engaged in discussions with The Royal Bank of Scotland Group plc (RBS) and has made a preliminary non-binding proposal to RBS in relation to its Williams and Glyn operations. This engagement is ongoing and there can be no certainty that any transaction will occur, nor as to the terms on which any transaction might be concluded.

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Country by country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the European Union's Capital Requirements Directive (CRD IV). The purpose of the Regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The vast majority of entities that are consolidated within the Group's financial statements are UK registered entities. The activities of the Group are described in the Strategic Report.

The total operating income and the average number of full time equivalent employees during the year to 30 September 2016 were:

	2016 UK
Average full time equivalent employees (number)	6,718
Total operating income (£m)	997
Profit before tax (£m)	77
Corporation tax paid/(recovered) (£m)	(4)
Public subsidies received (£m)	Nil

The only non UK registered entities of the Group are two Trustee companies that are part of the Group's securitisation vehicles (Lanark and Lannraig). Both of these entities (Lanark Trustees Limited and Lannraig Trustees Limited) are registered in Jersey. These entities play a part in the overall securitisation process by having the beneficial interest in certain mortgage assets assigned to them. Both entities have no assets or liabilities recognised in their financial statements with the securitisation activity taking place in other UK registered entities of the structures. These entities do not undertake any external economic activity and have no employees. The results of these entities as well as those of the entire Lanark and Lannraig securitisation structures are consolidated in the financial statements of the Group.

Other information

The financial information included in this preliminary results announcement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2016 were approved by the directors on 21 November 2016 and will be delivered to the Registrar of Companies following publication in December 2016. The auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006.

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Credit Risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument.

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 to customers by credit quality

As at 30 September 2016:

	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:							
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

As at 30 September 2015:

	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:							
Neither past due nor impaired	70	363	668	20,170	418	5,277	26,966
Past due but not impaired	9	13	15	268	6	172	483
Impaired	-	-	-	66	2	170	238
	79	376	683	20,504	426	5,619	27,687

[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

Concentrations

Retail secured credit by loan size concentration	2016 £m	%	2015 £m	%
£0 - £100k	4,456	20.4%	4,673	22.8%
£100k - £250k	6,807	31.2%	6,930	33.8%
£250k - £500k	6,153	28.2%	5,257	25.6%
£500k - £1m	3,572	16.3%	2,962	14.5%
£1m - £2.5m	806	3.7%	640	3.1%
> £2.5m	42	0.2%	42	0.2%
	21,836	100%	20,504	100%

Retail secured credit average LTVs by loan size [1]	2016 Residential	2016 BTL	2016 Total
£0 - £100k	46.6%	53.6%	47.8%
£100k - £250k	57.3%	56.2%	56.9%
£250k - £500k	56.3%	56.5%	56.4%
£500k - £1m	54.5%	54.4%	54.5%
£1m - £2.5m	53.1%	46.6%	52.0%
> £2.5m	57.1%	32.1%	55.3%
	53.7%	55.5%	54.3%

Retail secured credit average LTVs by loan size [1]	2015 Residential	2015 BTL	2015 Total

£0 - £100k	47.6%	55.0%	48.9%
£100k - £250k	58.0%	58.3%	58.1%
£250k - £500k	57.1%	57.7%	57.3%
£500k - £1m	55.6%	56.0%	55.8%
£1m - £2.5m	54.2%	51.8%	53.8%
> £2.5m	52.3%	36.6%	51.2%
	54.5%	57.2%	55.3%

[1] LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index at a given date

Gross loans and advances to customers including loans designated at fair value through profit or loss – by industry concentration [1]	2016 £m	2015 £m
Government and public authorities	36	27
Agriculture, forestry, fishing and mining	1,458	1,515
Financial, investment and insurance	698	659
Property – construction	262	260
Manufacturing	577	576
Instalment loans to individuals and other personal lending (including credit cards)	1,344	1,477
Property – mortgage	21,836	20,504
Asset and lease financing	515	426
Other commercial and industrial	3,421	3,340
	30,147	28,784

Contingent liabilities and credit related commitments – by industry concentration	2016 £m	2015[2] £m
Government and public authorities	422	469
Agriculture, forestry, fishing and mining	382	380
Financial, investment and insurance	125	117
Property – construction	156	172
Manufacturing	658	656
Instalment loans to individuals and other personal lending (including credit cards)	1,931	1,955
Property – mortgage	1,780	1,818
Asset and lease financing	98	102
Other commercial and industrial	2,261	2,241
	7,813	7,910

[1] Includes balances due from customers on acceptances and excludes accrued interest.
[2] The comparatives have been restated to conform with current year industry categorisation.

Mitigation and Management of Credit Risk

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
Senior 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 represents the credit quality of SME loans of advances that are neither past due nor impaired:

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	2016 £m	2015 £m
Senior investment grade	1,077	1,174
Investment grade	1,557	1,615
Sub-investment grade	3,533	2,906
	6,167	5,695

Credit quality of loans held at fair value through profit and loss that are neither past due nor impaired:

	2016 £m	2015 £m
Senior investment grade	6	47
Investment grade	259	445
Sub-investment grade	466	580
	731	1,072

Collateral held as security

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:

	2016 %	2015 %
Loan to value ratio:[1]		
Less than 50%	38	34
50% to 75%	48	51
76% to 80%	5	5
81% to 85%	3	4
86% to 90%	2	2
91% to 95%	1	1
96% to 100%	-	-
Greater than 100%	-	-
Unknown	3	3
	100	100

[1]LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index 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.

Non-property related collateral

The following table shows the total non-property collateral held by sector at 30 September 2016 in terms of cash, guarantees (these guarantors are predominantly other financial institutions who are considered to be of a high quality) and netting. The exposure amount shown below is the total gross exposure (before any Credit Risk Mitigation and Credit Conversion Factors have been applied where applicable) for arrangements which have some form of associated collateral held against it and is not the total exposure for each asset class, as disclosed elsewhere.

2016	Cash £m	Guarantee £m	Netting £m	Total £m	Exposure £m
Central Government or Central Bank	721	-	-	721	1,027
Corporates	49	40	32	121	135
Financial institutions	504	-	-	504	600
Past due items	-	-	-	-	3
Public sector entities	-	-	-	-	-
Regional Government or local authorities	-	-	94	94	94
Retail	-	-	-	-	-
Secured by mortgages on commercial real estate	4	-	35	39	107
Secured by mortgages on residential property	2	-	3	5	12
	1,280	40	164	1,484	1,978

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2015	Cash £m	Guarantee £m	Netting £m	Total £m	Exposure £m
Central Government or Central Bank	-	-	-	-	-
Corporates	64	53	57	174	205
Financial institutions	-	-	-	-	-
Past due items	-	-	-	-	4
Public sector entities	-	-	-	-	-
Regional Government or local authorities	-	-	114	114	114
Retail	-	-	-	-	-
Secured by mortgages on commercial real estate	4	-	31	35	86
Secured by mortgages on residential property	2	-	7	9	18
	70	53	209	332	427

Forbearance

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

Retail forbearance

As at 30 September 2016	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%

As at 30 September 2015	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	2,115	179	0.87%	4.0	2.22%
Temporary arrangements	985	99	0.48%	1.5	1.57%
Interest only conversion	88	12	0.06%	-	0.15%
Term extension	131	11	0.06%	0.1	0.84%
Other	11	1	0.01%	-	0.39%
Legal	216	23	0.11%	1.5	6.56%
	3,546	325	1.59%	7.1	2.19%

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 prematurity 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 30 September 2016, the Group had 102 (2015: 116) Customers with interest only mortgages not subject to forbearance and which were post six month maturity with a total value of £12m (2015: £12m).

A further forbearance reserve of £4m (2015: £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 £13.5m (2015: £11.1m) and to increase overall coverage to 3.52% (2015: 3.42%). When all other avenues of resolution including forbearance have been explored, the Group will take steps to repossess and sell underlying collateral. In the year to 30 September 2016 there were 78 repossessions of which 27 were voluntary (2015: 87 including 17 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 to be £14m at 30 September 2016 (2015: £18m), representing 1.33% of the unsecured Retail portfolio (2015: 1.62%). Impairment provisions on forborne balances totalled £4.2m at 30 September 2016 (2015: £5.5m), providing overall coverage of 29.02% (2015: 29.90%).

SME Forbearance

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

As at 30 September 2016	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 in 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%

As at 30 September 2015	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	491	429	6.00%	42.9	10.02%
Deferral of contracted capital repayments	166	152	2.12%	18.6	12.23%
Reduction in contracted interest rate	17	29	0.40%	6.8	23.64%
Alternative forms of payment	3	16	0.22%	4.5	28.76%
Debt forgiveness	24	55	0.78%	14.2	25.61%
Refinancing	33	61	0.86%	4.7	7.56%
Covenant breach/reset/waiver	62	166	2.32%	6.0	3.64%
	796	908	12.70%	97.7	10.77%

Included in other financial assets at fair value is a portfolio of loans which are included in the above table. The value of fair value loans subject to forbearance at 30 September 2016 is £101m (2015: £162m), representing 1.40% of the total SME portfolio (2015: 2.27%). Impairment allowances on these amounts totalled £11m (2015: £14m), a coverage of 10.82% (2015:8.68%).

Credit Quality of Customer Lending

An assessment of the credit quality of loans and advances to Customers is shown below.

As at 30 September 2016

	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:							
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.

As at 30 September 2015:

	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:							
Neither past due nor impaired	70	363	668	20,170	418	5,277	26,966
Past due but not impaired	9	13	15	268	6	172	483
Impaired	-	-	-	66	2	170	238
	79	376	683	20,504	426	5,619	27,687

(1)SME lending includes business overdrafts.

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Loans and advances which were past due but not impaired

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

2016	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

2015	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	8	6	5	77	6	110	212
30 to 59 DPD	-	2	3	57	-	17	79
60 to 89 DPD	-	2	2	36	-	9	49
Past due 90 days and over	1	3	5	98	-	36	143
	9	13	15	268	6	172	483

[1] SME lending includes business overdrafts.

Movements in impairment provisions throughout the year are as follows:

2016	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

2015	Retail overdrafts £m	Credit cards £m	Lease finance £m	Mortgages £m	SME lending[1] £m	Other retail lending £m	Total £m
Opening balance	8	10	13	27	2	185	245
Charge for the year	(2)	5	12	18	1	44	78
Amounts written off	(4)	(10)	(16)	(6)	(1)	(63)	(100)
Recoveries of amounts written off in previous years	3	2	2	-	-	5	12
Other[2]	-	-	-	-	-	(5)	(5)
Closing balance	5	7	11	39	2	166	230
Specific	-	-	-	22	1	69	92
Collective	5	7	11	17	1	97	138
	5	7	11	39	2	166	230

[1] SME lending includes business overdrafts.
[2] Other includes the unwind of net present value elements of specific provisions and other minor movements

Movement in gross impaired loan balances throughout the year are as follows:

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	2016 £m	2015 £m
Opening balance	238	319
New	96	87
Write off	(41)	(70)
Returned to performing	(79)	(98)
Closing balance	214	238

In addition to the gross impaired loans, there were also £19m and £25m impaired fair value loans for September 2016 and September 2015 respectively.

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Term	Definition
90+ DPD to customer loans *	Customer loans where the repayment is more than 90 days overdue as a percentage of total customer loans at a given date.
Additional Tier 1 securities (AT1)	Securities that are considered additional tier 1 capital in the context of CRD IV.
Arrears	A customer is in arrears when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue.
Average assets	Represents the average of assets over the year adjusted for any disposed operations.
Bad and doubtful debt charge to average customer loans *	Impairment losses on credit exposures plus credit risk adjustment on fair value loans to average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).
Bank	Clydesdale Bank PLC.
Bank Levy	Applicable to certain UK financial institutions and UK operations of foreign banks from 1 January 2011. The amount due is based on a percentage of the chargeable equity and liabilities for each applicable entity as at the balance sheet date.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 defining how firms should calculate their regulatory capital requirements.
Basel III	Reforms issued by the BCBS in December 2010 to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In Europe the new requirements were implemented by "CRD IV", on a phased basis from 1 January 2014 with full implementation by 1 January 2019.
Board	Refers to the CYBG PLC Board or the CB PLC Board as appropriate.
Capped Indemnity	The indemnity from NAB in favour of CYBG PLC in respect of certain qualifying conduct costs incurred by CYBG Group, which is capped at the "Capped Indemnity Amount", subject to the "Loss Sharing Arrangement", under the terms of the "Conduct Indemnity Deed".
Capped Indemnity Amount	An amount equal to £1.58 billion less any "Pre Covered provision amount".
Carrying value (also referred to as carrying amount)	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principles.
Collateral	The assets of a borrower that are used as security against a loan facility.
Collective impairment provision	Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.
Commercial paper	An unsecured promissory note issued to finance short term credit requirements. These instruments have a specified maturity date and stipulate the face amount to be paid to the investor on that date.
Company	CYBG PLC.
Conduct Indemnity Deed	The deed between NAB and CYBG PLC setting out the terms of: • The "Capped Indemnity"; and • Certain arrangements for the treatment and management of certain "Conduct Matters".
Conduct Matters	In the context of the "Conduct Indemnity Deed", conduct issues relating to PPI, standalone "IRHP", voluntary scope TBL's and FRTBL's and other conduct matters in the period prior to the demerger date whether or not known at the "demerger date".
Conduct risk	The risk that the Group's behaviours (culture, governance, systems and controls) have led to inappropriate customer outcomes.
Contractual maturities	The date on which the final payment of any financial instrument is due to be paid or received, at which point all the remaining outstanding principal and interest have been repaid in full.
Common Equity Tier 1 capital (CET1)	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Common Equity Tier 1 ratio *	CET1 capital divided by RWAs at a given date.
Counterparty	The other party that participates in a financial transaction, with every transaction requiring a counterparty in order for the transaction to complete.
Covered bonds	A corporate bond with primary recourse to the institution and secondary recourse to a pool of assets that act as security for the bonds on issuer default. Covered bonds remain on the issuer's balance sheet and are a source of term funding for the Group.
CRD IV	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV raises capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also "Basel III".

Glossary (continued)

Term	Definition
Credit risk	Risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, derivatives and debt securities.
Credit risk adjustment / credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
Customer deposits	Money deposited by individuals and corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
Default	A customer is in default when either they have breached a pre-set arrears threshold or are considered unlikely to pay their credit obligations in full without the Group taking actions to secure repayment.
Delinquency	See "Arrears".
Demerger	The demerger of CYBG Group from NAB pursuant to which all of the issued share capital of CYBI Limited was transferred to CYBG PLC by NAB in consideration for the issue and transfer of CYBG shares to NAB in part for the benefit of NAB (which NAB subsequently sold pursuant to the IPO) and in part for the benefit of NAB shareholders under a scheme of arrangement.
Demerger date	8 February 2016
Derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
Earnings at risk (EaR)	A measure of the quantity by which net interest income might change in the event of an adverse change in interest rates.
Effective interest method	The method used to measure the carrying value of certain financial instruments which amortises the relevant fees over the expected life of the instrument.
Encumbered assets	Assets that have been pledged as security, collateral or legally "ring fenced" in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions
Fair value adjustment	An adjustment to the fair value of a financial instrument which is determined using a valuation technique (Level 2 and Level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.
Forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers, both retail and SME, who are experiencing, or are about to experience, a period of financial stress.
Forborne performing loans	Loans to which forbearance measures have been granted and which are less than or up to 90 DPD and do not otherwise meet the criteria of forborne non-performing loans.
Forborne non-performing loans	Loans to which forbearance measures have been granted and which are more than 90 DPD, or where the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of DPD.
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms and is funded by the financial services industry. The FSCS may pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is usually because it has stopped trading or has been declared in default.
Funding risk	A form of liquidity risk arising when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.
Gross impaired assets to customer loans *	Gross impaired assets as a percentage of total customer loans at a given date.
Group	CYBG and its controlled entities.
Hedge ineffectiveness	Represents the extent to which the income statement is impacted by changes in fair value or cash flows of hedging instruments not being fully offset by changes in fair value or cash flows of hedged items.
Housing lending	Mortgages secured by residential properties as collateral
Impaired loans	Loans in arrears with insufficient security to cover principal and arrears of interest revenue or where there is sufficient doubt about the ultimate collectibility of principal and interest.
Impairment losses	Where an asset's recoverable amount is less than its carrying value and the difference is recognised in the income statement with the carrying value of the asset reduced by creating an impairment allowance. This can be assessed at either the individual or collective level.

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Term	Definition
Impairment allowances	A provision held on the balance sheet to recognise that a loan is impaired. This can be calculated at either the individual or collective level.
Indexed LTV of the mortgage portfolio *	The mortgage portfolio weighted by balance and indexed using the Halifax House Price Index at a given date.
Interest rate risk	The risk to the Group's financial performance and position caused by changes in interest rates.
Interest rate hedging products (IRHP)	This incorporates: (i) standalone hedging products identified in the Financial Services Authority (FSA) 2012 notice; (ii) the voluntary inclusion of certain of the Group's more complex tailored business loan (TBL) products; and (iii) the Group's secondary review of all fixed-rate tailored business loans (FRTBLs) complaints which were not in scope for the FSA notice.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal ratings-based approach (IRB)	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
Investment grade	The highest possible range of credit ratings, from "AAA" to "BBB", as measured by external credit rating agencies.
Level 1 fair value measurements	Financial instruments whose fair value is derived from unadjusted quoted prices for identical instruments in active markets
Level 2 fair value measurements	Financial instruments whose fair value is derived from quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable
Level 3 fair value measurements	Financial instruments whose fair value is derived from valuation techniques where one or more significant inputs are unobservable.
Leverage ratio*	This is a regulatory standard ratio proposed by the Basel III as a supplementary measure to the risk based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on- and off-balance sheet items plus derivatives.
Liquidity coverage ratio (LCR) *	Measures the surplus (or deficit) of the a bank's high quality liquid assets relative to weighted net stressed cash outflows over a 30 day period. It assesses whether the bank has sufficient liquid assets to withstand a short term liquidity stress based on cash outflow assumptions provided by regulators.
Liquidity risk	The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Listing Rules	Regulations applicable to any company listed on a United Kingdom stock exchange, subject to the oversight of the UK Listing Authority (UKLA). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public.
Loan to deposit ratio (LDR) *	Customer loans as a percentage of customer deposits at a given date.
Loan to value ratio (LTV)	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
Loss Share	The percentage of a provision raised or an increase in a provision which CYBG PLC will be responsible for under the "Conduct Indemnity Deed". Fixed at 9.7% at the demerger date.
Loss Sharing Arrangement	The arrangement relating to the "Capped Indemnity" pursuant to which CYBG PLC will be responsible for the "Loss Share".
Market risk	The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce income or portfolio values.
Net interest income	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net interest margin (NIM) *	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). Comparative disclosures (2015: previously 2.20%) have been amended to conform with the current year's presentation. As a result of the change in approach, average interest earning assets used as the denominator have reduced by £698m (2015: £464m) and the net interest income numerator by £2.6m (2015: £0.2m).

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Term	Definition
Net promoter score (NPS)	This is an externally collated customer loyalty metric that measures loyalty between a Provider, who in this context is the Group, and a consumer
Net stable funding ratio (NSFR) *	The total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage. The Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, the Group's ratio may not be directly comparable with those of other financial institutions.
Non-impaired assets 90+ DPD	Consist of well-secured assets that are more than 90 DPD and portfolio-managed facilities that are not well secured and are between 90 and 180 DPD.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
Overall Liquidity Adequacy Rule (OLAR)	An FCA rule that firms must at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This is included in the Group's "Risk Appetite" and subject to approval by the Board as part of the "ILAAP".
Past due loans and advances	Loans and advances on which repayments are overdue.
Pension risk	The risk that, at any point in time, the available assets to meet pension liabilities are at a value below current and future scheme obligations.
PPI redress	Includes PPI customer redress and all associated costs excluding fines.
Pre Covered provision amount	The amount of any provision(s) relating to "Conduct Matters" raised or increased by CYBG Group between 31 March 2015 and the "demerger date" in respect of which NAB has provided specific support at any time after 31 March 2015 but before the "demerger date". This was £465m at the "demerger date".
Probability of default (PD)	The probability that a customer will default (usually within a one-year time horizon). although the time horizon will change on 1 October 2018 in line with IFRS 9 requirements.
Property revaluation	Represents revaluation increments and decrements of land and buildings based on directors' valuations to reflect fair value.
Regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA
Residential mortgage-backed securities (RMBS)	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
Restructured loans	A restructured loan is where the terms and conditions of a loan contract have been varied that may involve one or both of the following: - the original scheduled repayment contract has been re-written by changing the frequency and pattern of repayments with a lengthening of the final repayment/maturity profile on a non-commercial basis (e.g. non-market extension of principal repayment period); - the Group has previously made a specific provision for the customer and written off the debt in part or converted the debt to a changed obligation in exchange for realisable assets not previously held or a debt for equity swap. See also "forbearance".
Retail loans	Lending to individuals rather than institutions. This includes both secured and unsecured lending such as personal loans, residential and BTL mortgages, overdrafts and credit card balances.
Return on assets (ROA)	Net profit/(loss) attributable to equity holders as a percentage of total assets.
Risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
Risk-weighted assets (RWA)	On and off balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
Sale and repurchase agreement ("repo")	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Scheme of arrangement	A scheme of arrangement under Part 5.1 of the Australian Corporations Act between NAB and NAB shareholders to effect the demerger
Secured lending	Lending in which the borrower pledges some asset (e.g. property) as collateral for the lending.
Securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding than can achieve a reduction in funding costs by offering typically "AAA" rated securities secured by the underlying financial asset.

CYBG PLC
Glossary (continued)

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Term	Definition
SME lending	Lending to non-retail customers, including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Sovereign exposures	Exposures to governments, ministries, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.
Specific impairment provision	A specific provision relates to a specific loan, and represents the estimated shortfall between the carrying value of the asset and the estimated future cash flows, including the estimated realisable value of securities after meeting securities realisation costs.
Specific provision to gross impaired assets *	The specific impairment provision on credit exposures as a percentage of gross impaired assets at a given date
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Statutory basic earnings per share *	Statutory profit/(loss) attributable to ordinary equity shareholders including tax relief on any distributions made to other equity holders divided by the weighted average number of ordinary shares in issue for a given period.
Statutory cost to income ratio *	Statutory total operating expenses as a percentage of total operating income for a given period.
Statutory return on assets *	Statutory profit/(loss) after tax as a percentage of average assets for a given period.
Statutory ROTE *	Statutory profit/(loss) after tax less preference share and non-controlling interest distributions as a percentage of average tangible equity (total equity less intangible assets excluding AT1) for a given period.
Structured entities (SE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SE may take the form of a corporation, trust, partnership or unincorporated entity. SEs are often created with legal arrangements that impose strict limits on the activities of the SE. May also be referred to as an SPV.
Subordinated debt	Liabilities which rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 Capital plus other Tier 1 securities in issue, subject to deductions
Tier 1 ratio	Tier 1 capital resources divided by risk-weighted assets at a given date. Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
Total capital ratio *	Total capital resources divided by risk-weighted assets at a given date.
Total provision to customer loans*	Total impairment provision on credit exposures as a percentage of total customer loans at a given date.
Underlying basic earnings per share *	Underlying profit/(loss) attributable to ordinary equity shareholders including tax relief on any distributions made to other equity holders divided by the weighted average number of ordinary shares in issue for a given period.
Underlying cost to income ratio *	Underlying total operating expenses as a percentage of underlying total operating income for a given period
Underlying profit after tax attributable to ordinary equity holders	Underlying profit before tax of £221m less tax charge of £44m (or plus tax credit, as the case may be), less dividends and distributions of £34m and was equal to £143m (2015: £121m). The underlying tax credit/(charge) is calculated by applying the statutory tax rate of 20% for the relevant period to the taxable items adjusted on the underlying basis. Average tangible equity has been calculated using the tangible equity spot balances at each of the month ends of the applicable period.
Underlying return on assets *	Underlying profit after tax as a percentage of average assets for a given period
Underlying ROTE	Underlying profit after tax less preference share and other distributions as a percentage of average tangible equity (total equity less intangible assets excluding AT1) for a given period.
Unsecured lending	Lending in which the borrower pledges no assets as collateral for the lending (such as credit cards and current account overdrafts).
Value at risk (VaR)	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence
Write-down	A reduction in the carrying value of an asset due to impairment or adverse fair value movements

* Key Performance Indicators (page 3)

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Abbreviations

ALCO	Assets and Liabilities Committee	FCA	Financial Conduct Authority.	MRT	Material Risk Taker
AML	Anti Money Laundering	FRC	Financial Reporting Council	NAB	National Australia Bank
APRA	Australian Prudential Regulatory Authority	FSCS	Financial Services Compensation Scheme	NIM	Net interest margin
ASX	Australian Securities Exchange	FTE	Full time equivalent	NPS	Net promotor score
AT1	Additional Tier 1	HMRC	Her Majesty's Revenue and Customs	NSFR	Net stable funding ratio
BCA	Business current accounts	IASB	International Accounting Standards Board	NYSE	New York Stock Exchange
BCBS	Basel Committee on Banking Supervision	ICAAP	Internal Capital Adequacy Assessment Process	OLAR	Overall liquidity adequacy rule
BoE	Bank of England	IFRS	International Financial Reporting Standards	PBT	Profit before tax
BTL	Buy-to-let mortgages	ILAAP	Internal Liquidity Adequacy Assessment Process	PCA	Personal current accounts
CAGR	Compound Annual Growth Rate	IPO	Initial Public Offering	PPI	Payment protection insurance
CET 1	Common Equity Tier 1 Capital	IRB	Internal ratings-based	PRA	Prudential Regulation Authority
CIR	Cost to income ratio	IRHP	Interest rate hedging products	RMBS	Residential mortgage-backed securities
CMA	Competition and Markets Authority	IRRBB	Interest rate risk in the banking book	ROA	Return on assets
CRD	Capital Requirements Directive	ISDA	International Swaps and Derivatives Association	RoTE	Return on Tangible Equity
CRE	Commercial Real Estate	LCR	Liquidity coverage ratio	RWA	Risk weighted assets
CRR	Capital Requirements Regulation	LDR	Loan to deposits	SE	Structured entity
DB	Defined benefit	LIBOR	London Interbank Offered Rate.	SME	Small or medium sized entities
DTR	Disclosure and Transparency Rules	LSE	London Stock Exchange	SVR	Standard variable rate
EBA	European Banking Authority	LTIP	Long term incentive plan	TSA	Transitional Services Agreements
EIR	Effective interest rate	LTV	Loan to value		
EPS	Earnings per share	MREL	Minimum Requirement for Own Funds and Eligible Liabilities		

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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 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 status of the UK's membership of the European Union, and future capital expenditures and acquisitions.

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