

CYBG PLC
(Company)

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18 May 2018

Offer for Virgin Money – Investor Presentation

CYBG will be hosting a presentation for analysts and investors covering the recommended all-share offer for Virgin Money at Deutsche Bank, Winchester House, 1 Great Winchester Street, EC2N 2DB starting at 08.30 BST today (17.30 AEST).

The meeting will be webcast live. A copy of the presentation is available at <https://www.cybg.com/cybg-update/> and is attached.

Enquiries:

<u>Investors and Analysts</u>	
Andrew Downey Head of Investor Relations	+44 20 3216 2694 +44 7823 443 150 andrew.downey@cybg.com
Owen Price Senior Manager, Investor Relations	+44 20 3216 2785 +44 7484 908 949 owen.price@cybg.com
<u>Media (UK)</u>	
Anthony Thompson, Head of Corporate Affairs	+44 7484 046 241 anthony.thompson@cybg.com
Press Office	+44 800 066 5998 press.office@cybg.com
Powerscourt	+44 20 7250 1446
Victoria Palmer-Moore	+44 7725 565 545
Justin Griffiths	+44 7899 967 719
<u>Media (Australia)</u>	
Citadel Magnus	
Peter Brookes	+61 407 911 389
James Strong	+61 448 881 174



CYBG

CREATING THE FIRST TRUE NATIONAL COMPETITOR TO THE STATUS QUO

RECOMMENDED ALL-SHARE OFFER FOR VIRGIN MONEY

18 June 2018

AGENDA

Transaction terms and vision for the future	David Duffy
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Financial rationale	Ian Smith
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Technology platform and integration	Debbie Crosbie
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Summary	David Duffy
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Q&A	
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TRANSACTION
TERMS &
VISION FOR
THE FUTURE



DAVID DUFFY, CEO

TRANSACTION TERMS



Key terms

Recommended all-share offer

1 2125 new CYBG shares per Virgin Money share

Ownership split **c.62% to existing CYBG** shareholders and **c.38% to Virgin Money** shareholders

Significant upfront premium to Virgin Money shareholders

19% premium to 4th May closing price
35% vs 3mth VWAP to 4th May



Synergies

c.£120m of annual run-rate cost synergies expected by end of FY2021

Plus incremental benefit from avoidance of VMDB future running costs

Further upside potential from revenue and funding synergies

Revenue benefit derived through leveraging the Virgin Money brand

Material EPS accretion and acceleration of progressive dividend ambition



Governance

Board and management team continuity

Jim Pettigrew to remain Chairman
David Duffy to remain CEO
Ian Smith to remain CFO

2 Board seats for Virgin Money board members

Virgin Enterprises board seat as part of brand licence agreement



Key dates

Q3 2018

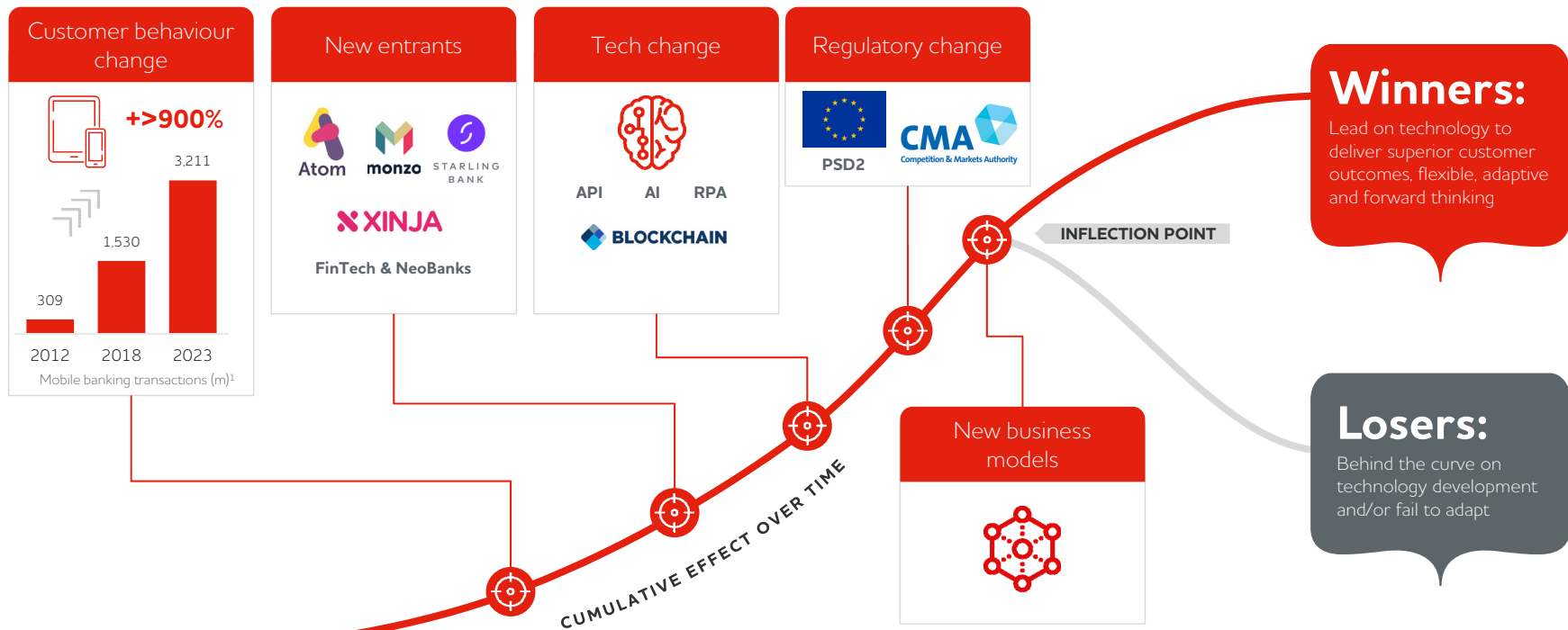
Shareholder documentation published and respective meetings to be held

Q4 2018

Expected completion subject to shareholder and regulatory approval

Recommendation of both boards and an irrevocable undertaking from Virgin Group

WE ARE REACHING AN INFLECTION POINT IN THE BANKING INDUSTRY



(1) Source: CACI research May 2018

THIS TRANSACTION COMBINES COMPLEMENTARY BUSINESSES AND DELIVERS SCALE

CYBG

Full-service, digitally enabled capability

- Full product range
- Mass retail and bespoke professional mortgage proposition
- Strong SME franchise
- Digital capability and Open Banking
- Deep customer loyalty



Iconic brand with national distribution

- National brand recognition
- Mass retail mortgage proposition
- Strong credit card capability
- Retail investment proposition
- A leading UK NPS of +37

SCALE

TWO UK CHALLENGERS BECOME A TRUE NATIONAL COMPETITOR

Strong customer proposition with an iconic brand



+37

A leading UK NPS

A wide range of retail and SME products

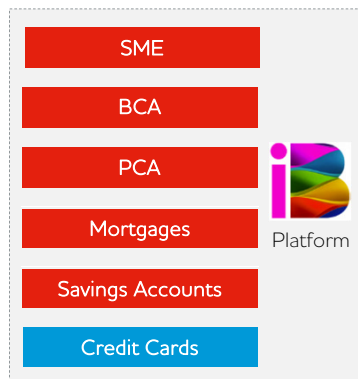


Complementary product expertise

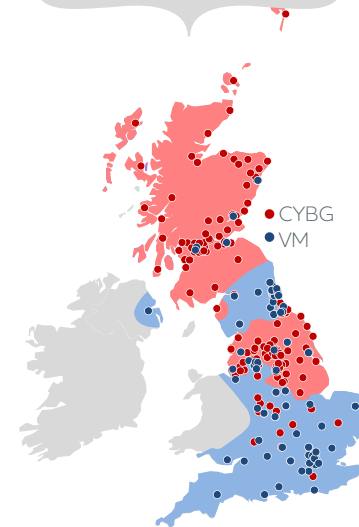
- SME
- BCA
- PCA
- Mortgages
- Savings Accounts
- Credit Cards
- Investment Products



All banking products integrated digitally on the iB platform



National coverage and scale



DELIVERING AN ENHANCED RETAIL CUSTOMER PROPOSITION...

Compelling retail customer experience

Delivers full product set



- Full banking product offering for customers post transaction
- Complementary blend of product expertise driving product innovation for customers

Strengthens omni-channel customer proposition



- All channels on single platform customer service proposition
- National coverage increases customer convenience and access

Leverages digital capabilities



- Wider and deeper customer base benefitting from iB platform capabilities and customer experience
- Greater scale will allow increased investment in platform, improving user experience

New partnerships opportunities



- Potential to build partnerships with other Virgin Group companies to offer customers innovative products
- Opportunities to expand offerings to an enlarged customer base

...WITH A STRONG REGIONAL SME FRANCHISE AND AMBITION TO COMPETE NATIONALLY

Differentiated SME franchise

Strong SME capabilities



- 175 years' history and heritage
- Full product suite & substantive BCA capability
- Relationship manager led service model
- Deep sector specialism and proven risk management capability

Scale & strength in core regions



- £9bn of deposits and £7bn of lending
- c.15% BCA market share in Scotland & Yorkshire
- c.200k customers – 50% with CYBG >10 yrs
- 300 experienced Relationship Managers

Will invest in new generation SME experience



- Developing our SME digital proposition using our market-leading iB platform
- Platform capability facilitates 3rd party software integration

Well positioned to become a national competitor



- Switching RBS customers - 120,000 BCAs (c.3% market share) must switch:
 - ✓ CYBG offers an attractive home with full BCA and wider product and service proposition
 - ✓ Dedicated switching & on-boarding capability in place
- Compelling case for Pool A funding given substantive SME offering

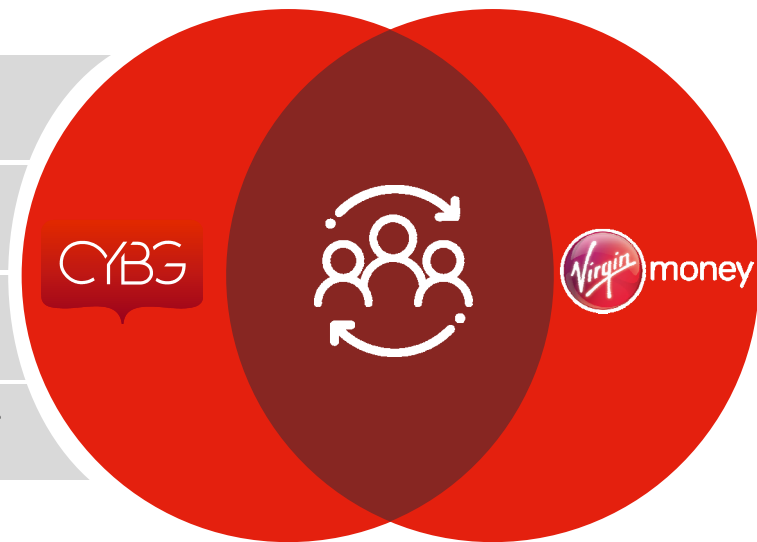
BRINGING TOGETHER TWO HIGHLY COMPATIBLE CULTURES

Brand / cultural alignment between businesses

Balanced approach planned to integration strategy

Re-branding for staff immersion and customer experience

Building a 'best of both' model: opportunity to leverage talent of both CYBG and Virgin Money colleagues



Clear alignment in cultures provides opportunity to leverage the strengths of both businesses

WE WILL CREATE THE FIRST TRUE NATIONAL COMPETITOR TO THE STATUS QUO

Iconic national brand



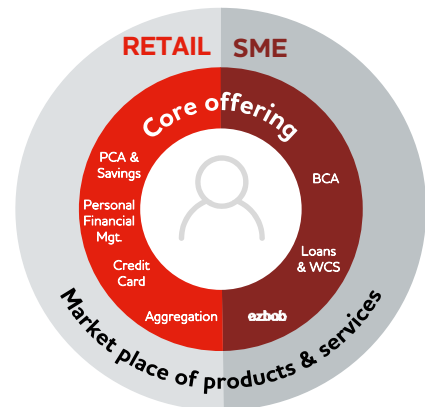
Retail & SME proposition
with scale



Leading digital capability



Customer-centric
Scale to compete
National coverage
Digital innovator
Full-service product range



FINANCIAL RATIONALE

IAN SMITH, CFO



FINANCIAL HIGHLIGHTS OF THE TRANSACTION

Significant cost synergies expected	<ul style="list-style-type: none">- Annual run-rate cost synergies of c.£120m delivered by end of FY 2021- Additional benefit from avoidance of VMDB future running costs- Expect additional value creation from revenue and funding synergies over time
Diversified, customer-led funding model	<ul style="list-style-type: none">- Diversified funding base with >75% customer deposit funding and strong relationship PCA/BCA base- Pro forma LDR of 117%- Clear and manageable path to refinance TFS
Broad-based, low-risk asset portfolio	<ul style="list-style-type: none">- Combined balance sheet weighted towards high quality, low risk mortgages (83% of lending)- Prime credit card portfolio acquired – fills a gap in unsecured offering- Complemented by high quality SME portfolio
Strong pro forma capital position	<ul style="list-style-type: none">- Pro forma Day-1 CET1 ratio of >12%- Significant buffer to regulatory minimum capital requirements- Further upside potential to come from near-term capital optimisation initiatives
Reinforces delivery of financial targets	<ul style="list-style-type: none">- Material EPS accretion for all shareholders once full cost synergies are delivered- Expect to perform strongly against existing financial targets- Strong capital generation supports acceleration of progressive dividend ambitions

SIGNIFICANT COST SYNERGIES EXPECTED

Total pre-tax cost synergies



- Annual run-rate cost synergies of c.£120m expected by end of FY 2021
- c.30% of run rate synergies delivered by end FY 2019 and c.70% FY 2020
- Additional benefit from avoidance of VMDB future running costs

Network efficiency



- Optimisation of branch network and associated costs
- Limited overlap in customer-facing roles

Organisational design



- Remove duplication of senior management roles

Operational efficiency



- Remove duplicated central function roles
- Integration of customer service operating models and increased digitisation

Central cost management



- Reduce central function locations
- Deliver scale efficiencies in IT and optimise 3rd party spend
- Net of incremental trademark licence fees related to Virgin Money brand

Synergy quantum and delivery approach aligned to CYBG's successful Sustain cost efficiency programme

CONSERVATIVE COSTS TO ACHIEVE

Estimated pre-tax
costs to achieve



FY 2019



FY 2020



FY 2021



Costs to achieve conservatively estimated

- Estimated pre-tax costs to achieve of £240m primarily severance, property and resources to support operational and IT integration
- Conservatively estimated given commitment to uphold redundancy policies and allowance for phased integration
- Organisational design employee restructuring costs primarily in year 1
- Operational efficiency employee restructuring costs largely recognised in years 2-3
- Optimisation of branches and office locations to take 2-3 years
- IT integration plan de-risked by product and platform strategy, with phased implementation in years 2 - 3

UPSIDE POTENTIAL FROM REVENUE SYNERGIES

Brand economics

- Exclusive use of Virgin Money brand for Financial Services in the UK
 - Perpetual agreement
 - Licence fee of £12m in year 1 with scaled increases thereafter
 - Strong partnership with Virgin Enterprises Limited (owner of the Virgin brand)
- Rebranding cost of approximately £60m pre-tax, largely incurred during first 2 years
 - Majority of costs relate to products, IT and property
 - Rebranding cost replaces that which would otherwise have been required to scale the B brand more widely

Revenue synergies



Iconic Virgin brand reach enables national growth



Customer loyalty provides opportunity for higher sales conversion and improved customer retention



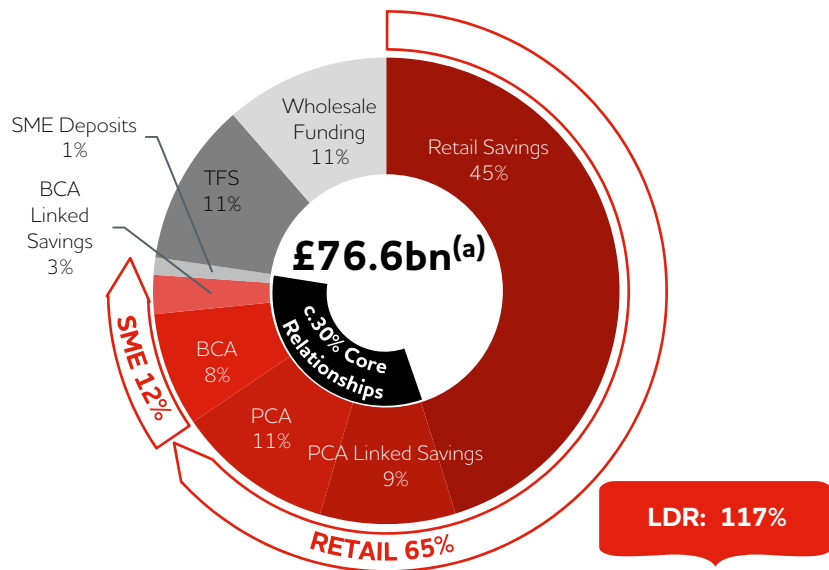
Broader product set available to Virgin Money customers driving an increase in products per customer



Wider Virgin Group offers enhanced partnership opportunities

DIVERSIFIED, CUSTOMER-LED FUNDING MODEL

Diversified funding base remains^(b)



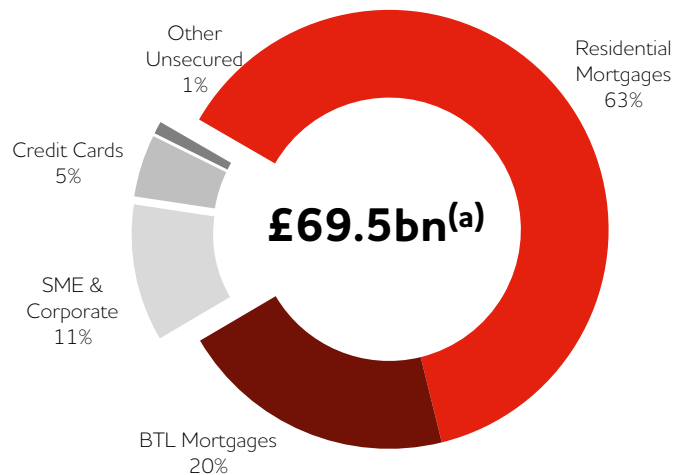
Clear funding strategy

- Sticky funding base with 77% customer deposit funding, with c.30% of total deposits relating to core PCA and BCA relationships
- Current fixed term savings products renewal rate of 80%
- Virgin Money brand combined with CYBG current account offering offers significant current account and linked savings growth opportunity
- Planned TFS refinancing in advance of contractual maturity, supported by:
 - Personal and business current account growth
 - SME liability growth through RBS alternative remedies package incentivised switching scheme
 - Savings growth across Retail and SME
 - Ongoing wholesale issuance plan including MREL

(a) Based on CYBG balances as of 31 March 2018 and Virgin Money balances as of 31 December 2017
 (b) Based on TFS drawings of £6.4bn reported by Virgin Money as at February 2018

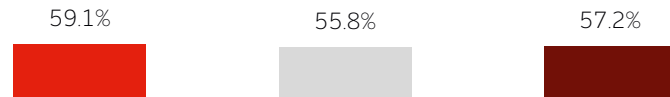
COMPLEMENTARY MODELS CREATES A LOW RISK COMBINED PORTFOLIO

Combined lending book weighted to low risk mortgages

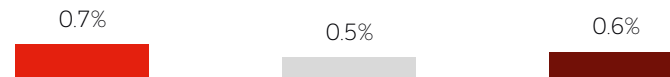


High quality mortgage book

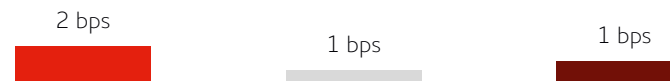
WA LTV^(a)



NPL Ratio^{(a),(b)}



Net Cost of Risk^(c)



■ CYBG ■ Virgin Money ■ Combined

(a) Based on CYBG balances as of 31 March 2018 and Virgin Money balances as of 31 December 2017
 (b) NPL ratio defined as (impaired mortgages + mortgages 90+ days in arrears)/ gross mortgages
 (c) Based on latest FY results for both CYBG and Virgin Money

PRIME CREDIT CARD PORTFOLIO UNDERPINS UNSECURED LENDING GROWTH OPPORTUNITIES

VM cards are concentrated in lower risk segments...^(a)

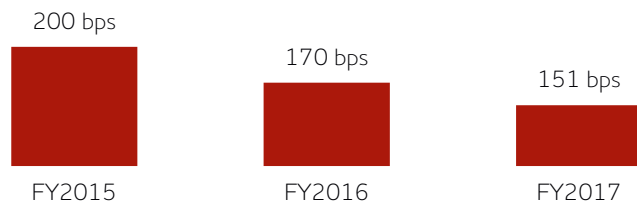


...future growth from a broader product set...

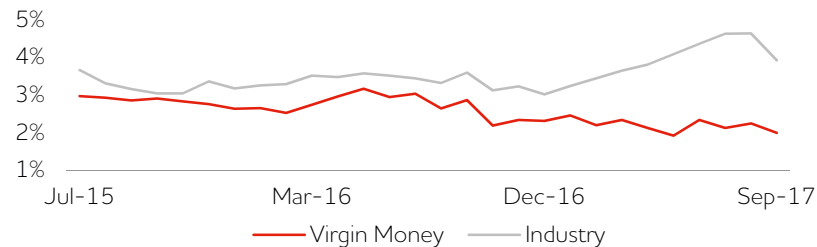
- + 8% retail spend per VM card in 2017
- Opportunity for growth in under-penetrated CYBG customer base
- Virgin Atlantic Airways partnership expected to drive an increase in retail spend
 - Prime, affluent customer base
 - Launched in 1H18

...impairment ratio has been reducing...^(b)

VM Cards - Cost of Risk (as disclosed)



... and charge off rates lower than industry average^(c)



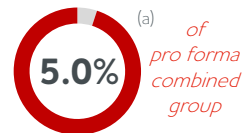
CREDIT CARD EIR ACCOUNTING TO BE REVIEWED ON COMPLETION

Credit card EIR accounting

- The Effective Interest Rate (EIR) accounting methodology will be reviewed as part of the acquisition fair valuation exercise
- Combined Group to take a prudent approach to credit card income recognition
- Further detail to be provided post completion

Virgin Money key credit card business metrics

Credit cards
as % of total
customer
loans



Effective
interest rate

(b)
6.8%

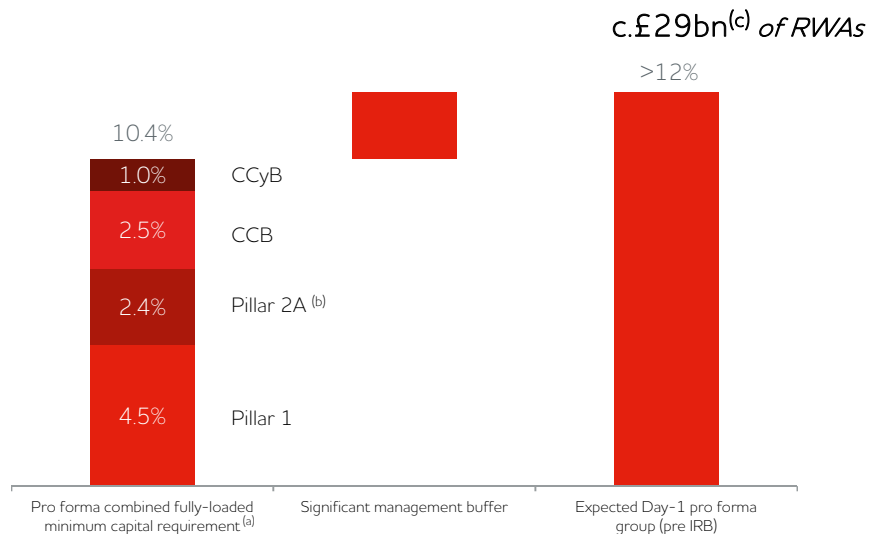
Assumed
average
customer life

(b)
7 Years

(a) Based on CYBG gross balances as of 31 March 2018 and Virgin Money gross balances as of 31 December 2017
 (b) As disclosed in Virgin Money's 1H 2017 presentation

COMBINED GROUP TO BE STRONGLY CAPITALISED

Significant CET1 capital buffer maintained on Day 1...



...material upside potential from capital optimisation

- Day 1 pro forma CET1 ratio of >12.0%; maintaining a significant surplus to minimum regulatory capital requirements^(b)
- Combined group assets remain materially below systemic bank threshold – no domestic systemic risk buffer
- CYBG mortgage IRB accreditation remains on track
 - Continued progress on IRB, with increasing confidence of achieving accreditation for the mortgage book by 1st October 2018, as previously guided
 - Continue to expect an RWA reduction of c.£5bn
- Potential for further upside from reduction in VM mortgage risk weightings

(a) Based on capital position of CYBG as at 31 March 2018 and Virgin Money as at 31 December 2017. The Capital position of the Enlarged Group is subject to confirmation of the Regulatory Treatment, in respect of the Enlarged Group, of the existing Capital Instruments issued by CYBG and Virgin, dependent on the final legal structure.

(b) Based on Pillar 2A requirements for CYBG as of 31 March 2018 and Virgin Money based on 2.2% go-forward CET1 requirement as disclosed by VM (at FY17 results), 3.2% CET1 P2A requirement was previously driven by Basel I floor being binding constraint (no longer applicable at 1st Jan 2018)

(c) Based on CYBG balance as of 31 March 2018 and Virgin Money balance as of 31 December 2017

ENHANCED CAPITAL GENERATION



Well placed to accelerate both CYBG and Virgin Money's progressive dividend ambitions

REINFORCES DELIVERY OF EXISTING FINANCIAL TARGETS

Metric	Existing guidance	Expected transaction impact
Loan growth	Mid single digit % CAGR to FY 2019	✓ Sustainable growth ambition continues
LDR	< 120%	✓ Diversified funding model continues
CIR	55% – 58% by FY 2019	✓ CIR at lower end of target range; significant cost synergies over time
RoTE	Double digit by FY 2019	✓ Double digit returns target maintained
Dividend	50% pay out ratio over time	✓ Accelerates progressive dividend ambition

Material EPS accretion for all shareholders once full cost synergies are delivered

EXPECTED TRANSACTION TIMELINE



TECHNOLOGY PLATFORM AND INTEGRATION

DEBBIE CROSBIE, COO



ESTABLISHED TECHNOLOGY PLATFORM AND INTEGRATION CAPABILITIES

An integrated, flexible and scalable platform



Real-time, omni-channel capability

ALL RETAIL AND SME CUSTOMERS ON A SINGLE PLATFORM



Platform

Microservices/APIs

Interaction management

Real time trusted data & insight



Fintech
Partners

CORE BANKING PLATFORM

TSYS

FULL CLEARING + PAYMENTS CAPABILITIES

Track record of integration and capability delivery

- Successful build, integration and scaling of iB platform to date:
 - c.2m Clydesdale/Yorkshire retail customers migrated onto iB platform
 - Business banking being migrated to iB in 2018
- Complex NAB separation programme largely complete with Treasury to be finalised in coming months
- Agile capability delivery
 - First to offer mobile cheque clearing
 - First to offer account aggregation to customers using secure Open API technology

LOW-COMPLEXITY INTEGRATION PLAN

Phased, low-volume, low-complexity integration...



Personal Current Accounts

c.100k VM current accounts
Transfer via Current Account Switching Service (CASS)



Personal & Business Savings

Bulk redirection service: industry process for accounts not covered by CASS



Mortgages and Fixed Term Savings

Renewal on target platform



Personal Credit Cards

CYBG accounts migrate to the TSYS platform

...with a clear, measured plan for delivery

Delivered by experts from both entities

Both organisations experienced in executing large-scale transformation and integration

No time pressure for delivery

Integration plan formulated with complete discretion over timing

Leveraging CYBG's flexible and scalable technology

Minimal new technology beyond scaling; all products will be integrated on iB platform

Integrated approach for brand, people, IT and products

Significant focus on re-brand of Clydesdale, Yorkshire and B brands

No 'big bang' migration events

SUMMARY



DAVID DUFFY, CEO

CREATING THE FIRST TRUE NATIONAL COMPETITOR TO THE STATUS QUO

Strategic rationale

Iconic brand Iconic brand combined with **customer focused culture** to drive future growth

National scale A new alternative in banking – 2 challengers transformed into a true national competitor with a **full service Retail & SME** offering

Leading digital capability Innovative digital technology that's **Open Banking** enabled today

Financial outcomes



c.£120m of annual run rate cost synergies driven by operational efficiencies



Low risk asset portfolio with diversified funding model



Robust pro-forma capital position for combined group with enhanced capital generation



Reinforces delivery of existing financial targets



Materially earnings accretive with opportunity for further shareholder value creation

Contact details

Andrew Downey

Head of Investor Relations
CYBG PLC

t: +44 20 3216 2694

m: +44 7823 443 150

e: andrew.downey@cybg.com

www.cybg.com/investor-centre

Owen Price

Senior Manager, Investor Relations
CYBG PLC

t: +44 20 3216 2785

m: +44 7484 908 949

e: owen.price@cybg.com

APPENDIX



VIRGIN MONEY OVERVIEW

Financial performance and key metrics

Financial performance (£m unless stated)	FY 2016	FY 2017
Net interest income	519	595
Non-interest income	68	71
Total operating and administrative expenses	(336)	(349)
Impairment losses on credit exposures	(38)	(44)
Underlying profit on ordinary activities before tax	213	273
Tangible Net Asset Value	1,206	1,312
Risk Weighted Assets	7,695	9,179
Net interest margin (NIM)	160bps	157bps
Cost of risk (bps)	13bps	13bps
Underlying cost income ratio (%)	57%	52%
Underlying return on tangible equity (RoTE) (%)	12.4%	14.0%
CET1 ratio (%)	15.2%	13.8%

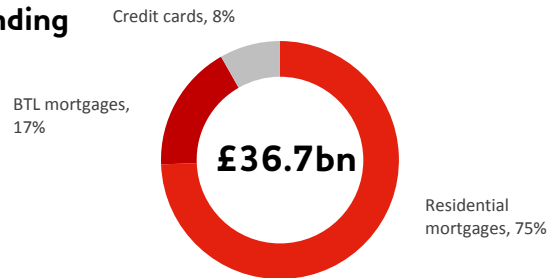
Key highlights

- Serve over 3.4m customers
- An average 3.0k FTE during 2017
- Network of 74 Stores and 8 Virgin Lounges
- Gross market share of 3.3% in Mortgages and 4.1% in Credit Cards
- Note: Virgin Money UK is entirely separate from Virgin Money Australia

2017 Assets and Liabilities

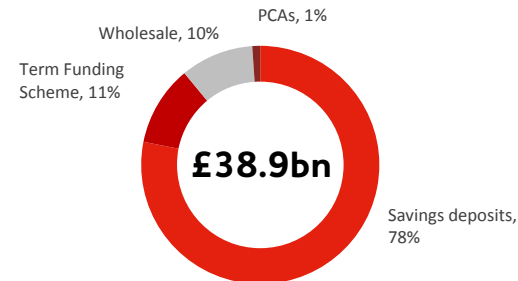
Net lending

£bn



Funding

£bn



Note: based on £4.2bn TFS drawing as of Dec 2017. £6.4bn TFS drawn as of Feb 2018

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