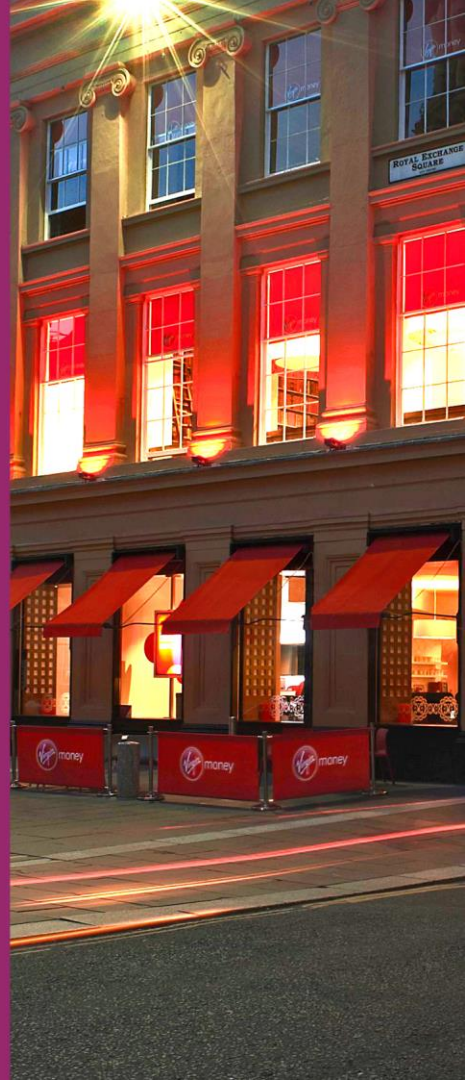




INTERIM FINANCIAL RESULTS 2019

CYBG PLC





AGENDA

Highlights

David Duffy

Financial results

Ian Smith

Q&A



HIGHLIGHTS



STRONG START FOR THE NEW GROUP

Resilient underlying performance in H1



Stable income in H1 despite competitive pressures



Costs reducing in line with guidance



Higher impairments due to normalisation as expected

Integration progressing well

Synergies delivered in line with expectations



New purpose launched
Cultures aligning



Exciting brand opportunities



Strong platform for the future

Capital Markets Day: 19th June



FINANCIAL RESULTS

All financial results stated on a pro forma basis
Statutory P&L is stated in the appendix



STRONG OPERATING PROFIT, INCREASED COST OF RISK

	6 months to	6 months to	Change	6 months to	Change
£m	31 Mar 2019	31 Mar 2018	YoY	30 Sep 2018	HoH
Net interest income	728	738	(1)%	719	1%
Non-interest income	115	104	11%	124	(7)%
Total operating income	843	842	0%	843	0%
Total operating and administrative expenses	(480)	(493)	(3)%	(505)	(5)%
Operating profit before impairment losses	363	349	4%	338	7%
Impairment losses on credit exposures	(77)	(48)	60%	(58)	33%
Underlying profit before tax	286	301	(5)%	280	2%
Net interest margin (NIM)	1.71%	1.84%	(13) bps	1.72%	(1) bp
Cost of risk	0.21%	0.14%	7 bps	0.16%	5 bps
Underlying cost income ratio	57%	59%	(2) %pts	60%	(3) %pts
Underlying return on tangible equity (ROTE)	10.4%	11.8%	(1.4) %pts	10.2%	0.2 %pts



ACQUISITION & INTEGRATION COSTS IMPACT PRO FORMA PROFIT

P&L (pro forma basis)	6 months to	6 months to	6 months to
£m	31 Mar 2019	31 Mar 2018	30 Sep 2018
Underlying profit before tax	286	301	280
Exceptional items			
- Acquisition and integration costs	(214)	-	(39)
- Legacy conduct	(33)	(220)	(176)
- Restructuring and separation	(2)	(28)	(18)
- Other items	(28)	(7)	(9)
Pro forma profit before tax	9	46	38
Statutory profit / (loss) after tax (15 Oct acquisition date)	29	(76)	(69)



ACQUISITION COSTS INCLUDE SIGNIFICANT ONE-OFFS

Acquisition and integration costs

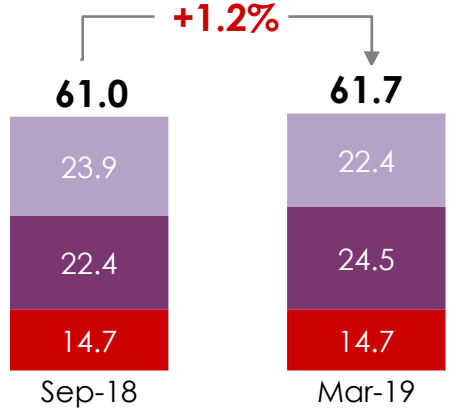
	6 months to 31 Mar 2019	Type	Comments
Integration costs	(45)	Ongoing	<ul style="list-style-type: none"> c. £300m over FY 2019 to 2021: <ul style="list-style-type: none"> c. £240m cost to achieve over three years c. £60m rebrand costs over two years
- Acquisition accounting	(67)	Ongoing	<ul style="list-style-type: none"> c.£270m of acquisition accounting unwinds over 5 years
- Intangible asset write-offs	(127)	One-off	<ul style="list-style-type: none"> Intangible asset write-offs relating to VMDB (£70m) and a post-acquisition review (£57m) - capital-neutral
- Mortgages EIR adjustment	80	One-off	<ul style="list-style-type: none"> Harmonisation of mortgage accounting
- Virgin Money transaction costs	(55)	One-off	<ul style="list-style-type: none"> Transaction costs incurred by Virgin Money prior to completion
Acquisition costs	(169)		
Acquisition and integration costs	(214)		

DIVERSIFIED FUNDING MODEL DRIVES DEPOSIT GROWTH

Prudent funding approach continues...

Customer deposit balances

£bn



Cost ⁽¹⁾ (bps)	85	96
LDR	116%	118%

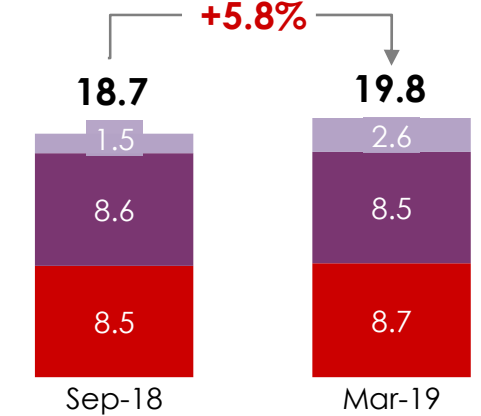
■ Current accounts ■ Savings ■ Term deposits

(1) Average cost of funds during six month period

...while managing our wholesale issuance

Wholesale balances

£bn



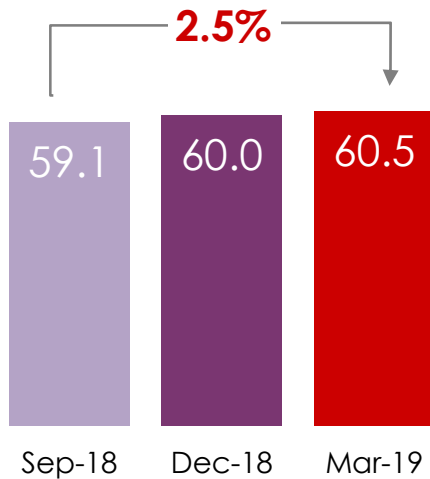
Cost ⁽¹⁾ (bps)	112	146
TFS (% of lending)	12.2%	11.7%

■ Debt securities ■ TFS ■ Due to other banks



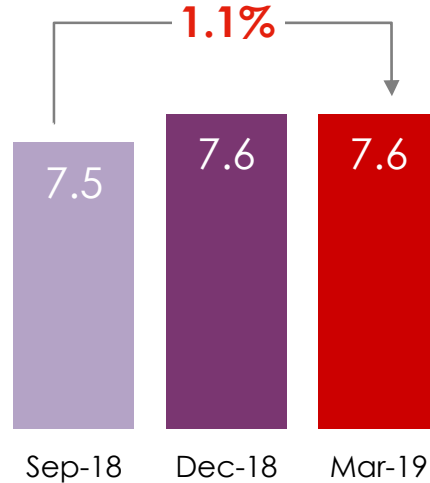
CONTINUED SUSTAINABLE ASSET GROWTH

Mortgages £bn



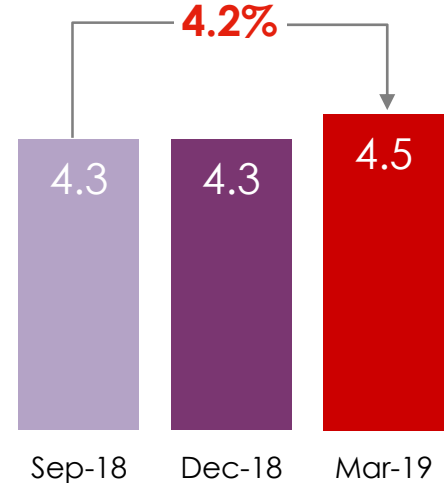
Solid growth in response to challenging market conditions

SME £bn



Strong drawdowns offset by higher redemptions from business disposals

Unsecured £bn



Virgin Atlantic credit cards and better personal loan capability underpin growth

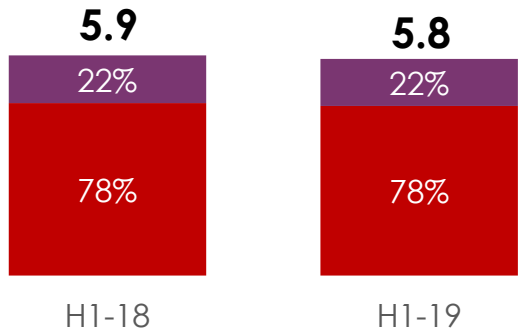


STRONG NEW BUSINESS FLOWS

Disciplined lending in response to market

Mortgage origination

£bn



Front
book LTV

69%

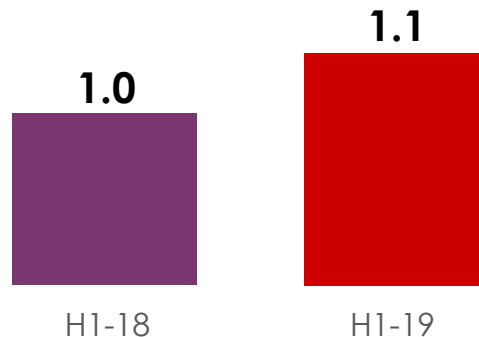
70%

■ Owner occupied ■ BTL

Strong new business drawdowns

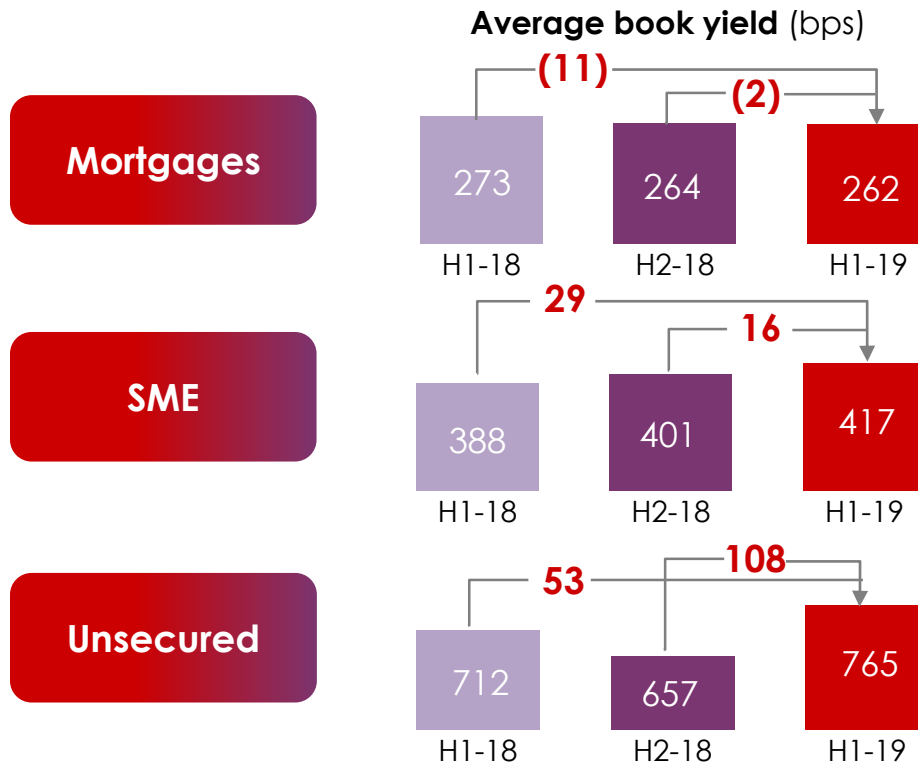
SME drawdowns

£bn



- Strong drawdowns during period despite economic uncertainty
- £1.2bn of facilities originated (£1.1bn in H1 18)
- Remain on track to achieve our £6bn lending commitment by end of 2019

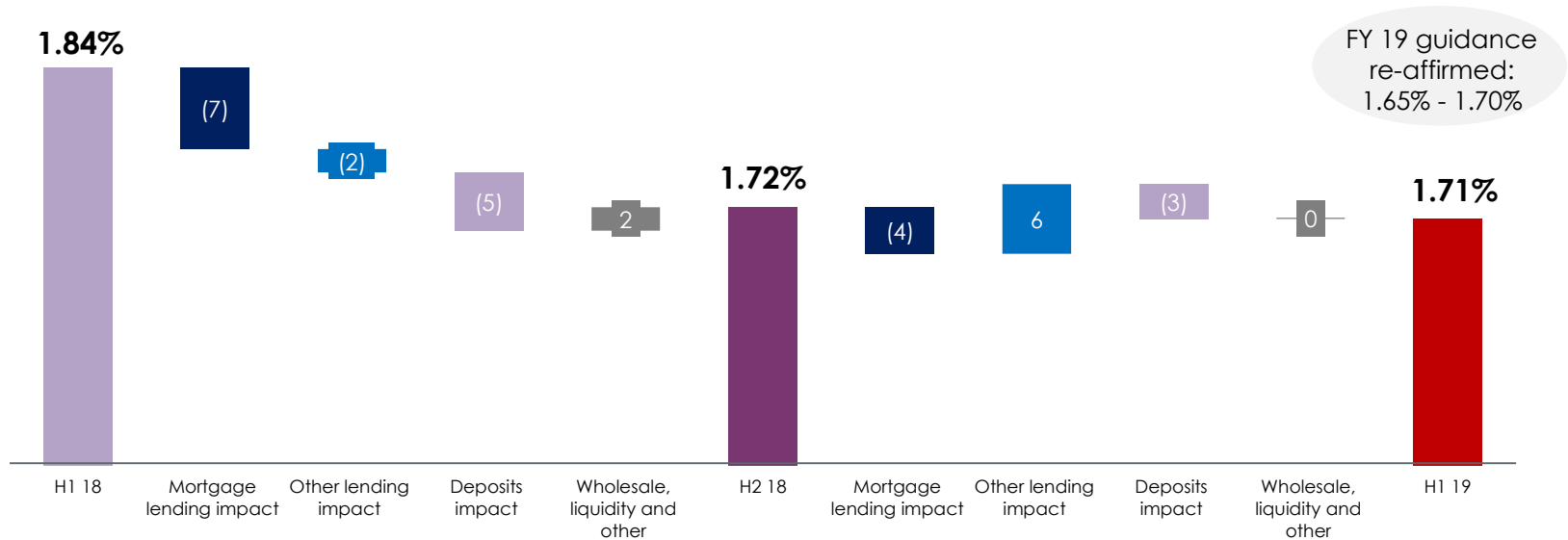
MANAGING NIM THROUGH PORTFOLIO MIX





NIM STABLE IN H1, BUT PRESSURES REMAIN

NIM evolution (bps)





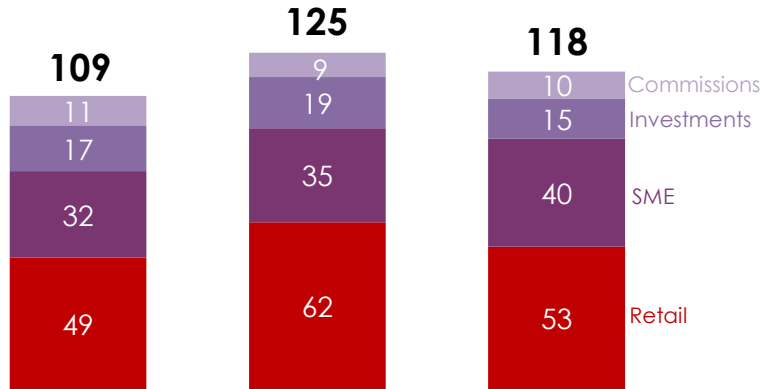
STABLE UNDERLYING FEE AND COMMISSION INCOME

Broadly stable underlying fee income...

...with good growth in credit card fees

Net fee and commission analysis

£m



H1 18

H2 18

H1 19

Fair Value

(5)

(1)

(3)

Total OOI

104

124

115

% of total income

12%

15%

14%

- **Retail:** fee income from current account and debit card fees, with good growth in credit card portfolio from Virgin Atlantic proposition; H1 18 included £6m of PCA incentive marketing costs
- **SME:** primarily business current account fees and treasury solutions for clients
- **Investments:** lower fee income in H1 19 due to the reduction in the customer fee; future income will be captured as a net profit share when ASI JV goes live
- **Commissions:** primarily income from sales of third party insurance products
- **Fair value:** small movements relating to hedging

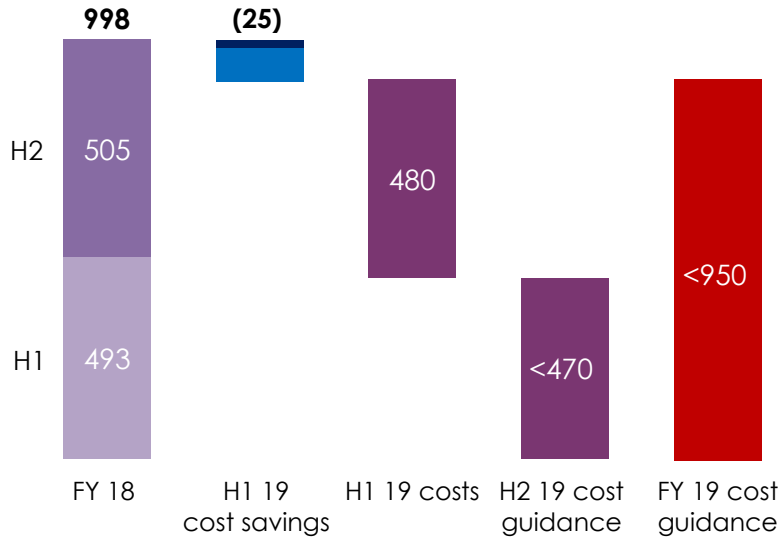


GOOD PROGRESS ON INTEGRATION AND COSTS

Absolute costs continue to reduce...

Pro forma underlying operating costs

£m

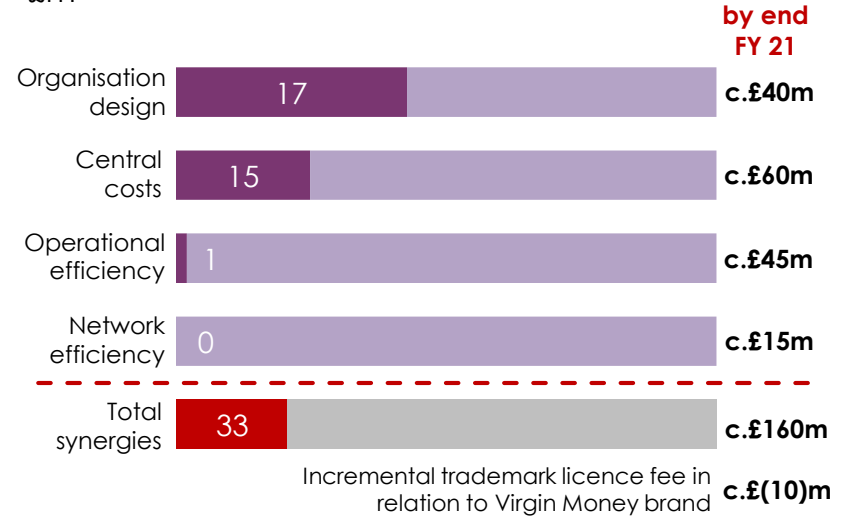


■ Integration ■ Sustain

...as integration synergies are realised

Annual run rate cost synergies

£m

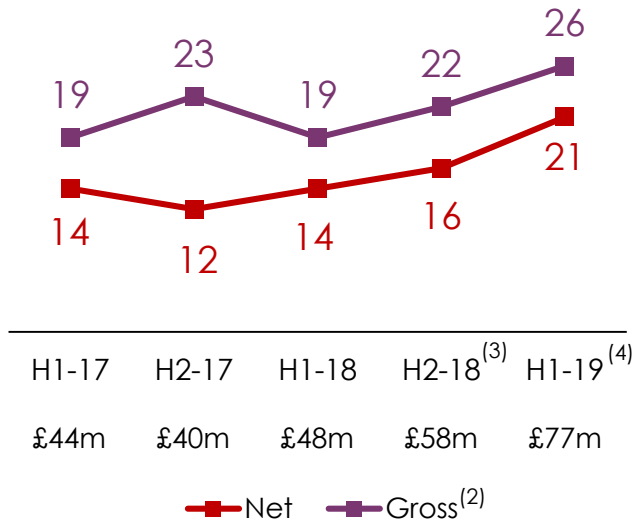


Net synergies target c.£150m

COST OF RISK INCREASE REFLECTS NORMALISATION

Normalisation of credit performance...

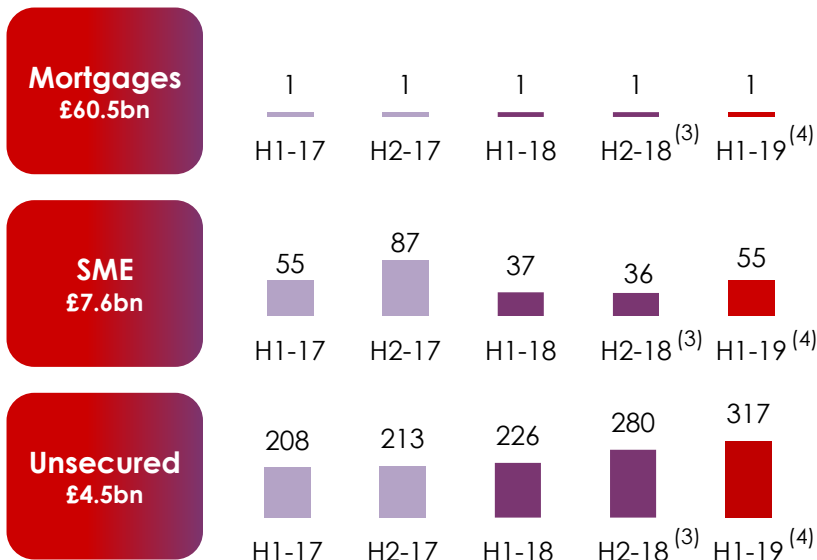
Cost of risk ⁽¹⁾
(bps)



(1) Cost of risk includes credit risk adjustment on loans at fair value
 (2) Gross cost of risk excluding provision releases/recoveries, debt sales and credit risk adjustments on loans at FV
 (3) Includes full adoption of IFRS9 for Virgin Money
 (4) Includes adoption of IFRS9 across both CYBG and Virgin Money

...across SME and Unsecured

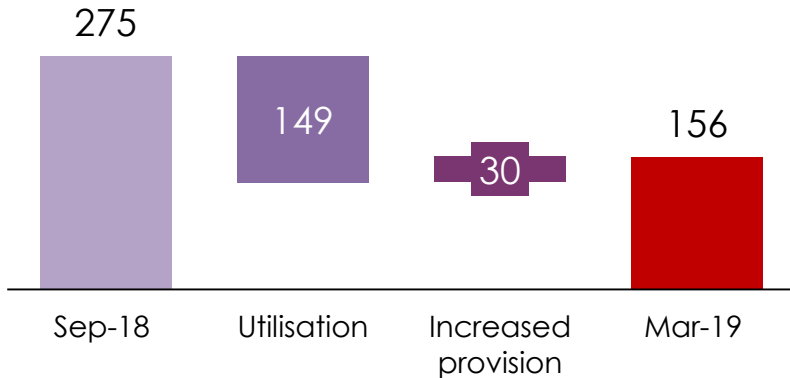
Gross cost of risk ⁽²⁾
(bps)



SMALL PPI TOP-UP REFLECTS PROCESSING COSTS AND VOLUMES

Utilisation and outlook required a small top-up...

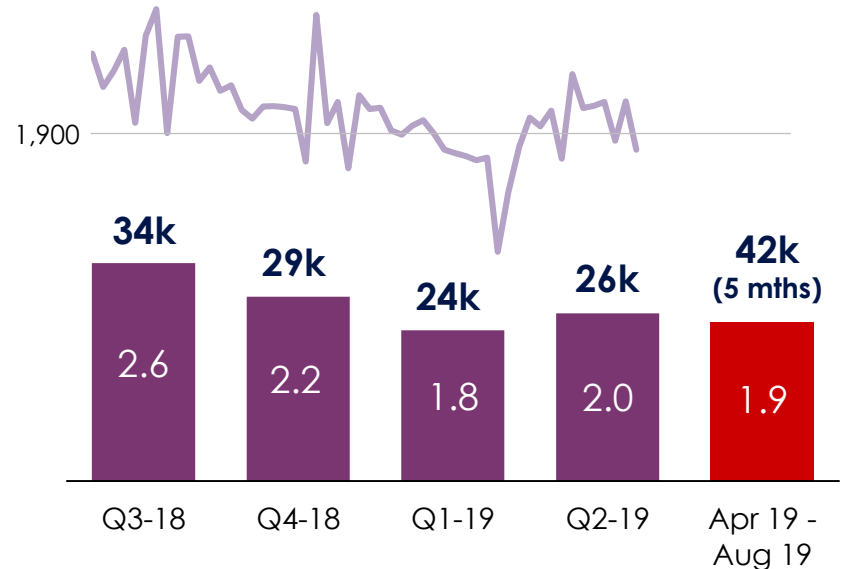
PPI provision
£m



- Higher PPI complaint processing costs following a pick-up in speculative PPI claims
- Modest increase in future PPI complaint volumes

...with complaint levels slightly higher

PPI walk in complaints per week
'000

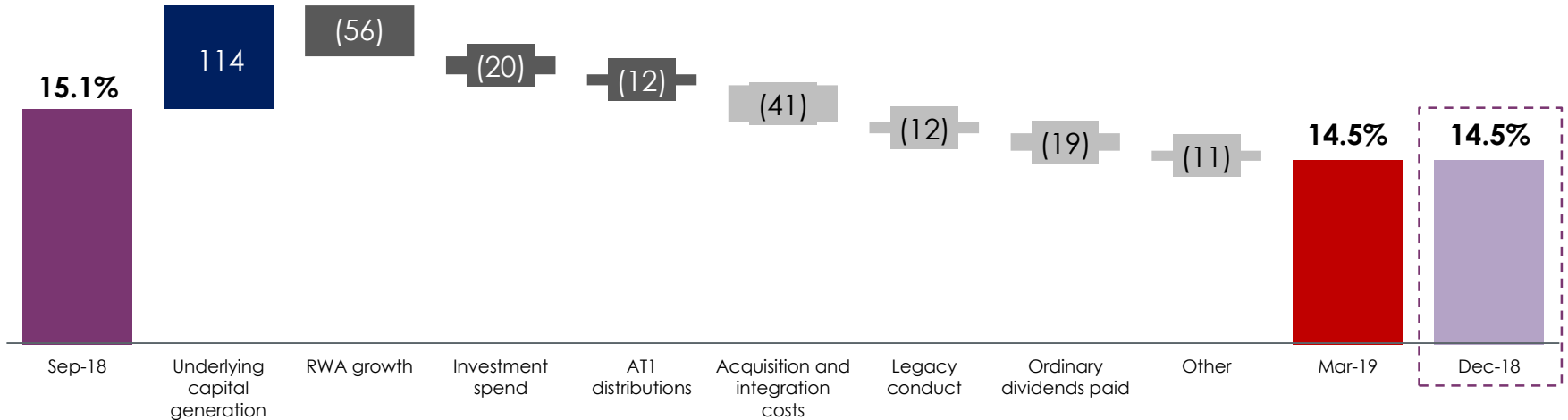




CAPITAL GENERATION ABSORBED BY EXCEPTIONAL COSTS

CET1 ratio evolution

(bps)



20.6%	Total capital	21.9%
5.1%	UK leverage ratio	5.3%



STRONG START FOR THE NEW GROUP

Solid first six months for the new group...



Resilient underlying performance in H1 2019



FY 19 guidance on NIM and costs re-affirmed



Integration progressing well & synergies in line with plan

...with more to come at the CMD

Refreshed group strategy and new divisional overviews



Overview of brand opportunities



Financial and strategic targets



Strong platform for the future

Capital Markets Day: 19th June



Q & A





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m: +44 7823 443 150

e: andrew.downey@cybg.com

A rectangular sign with a pink-to-orange gradient background and white text that reads "COME OVER". It is mounted on a brick wall.

**COME
OVER**

A rectangular sign with a pink-to-orange gradient background and white text that reads "LET'S TALK". It is mounted on a brick wall.

**LET'S
TALK**



APPENDIX

CYBG PLC





STATUTORY INCOME STATEMENT

Statutory P&L	6 months to		
	31 Mar 2019	31 Mar 2018	30 Sep 2018
£m			
Net interest income	820	426	425
Non-interest income	106	77	79
Total operating income	926	503	504
Operating and administrative expenses	(711)	(576)	(554)
Operating profit before impairment losses	215	(73)	(50)
Impairment losses on credit exposures	(173)	(22)	(19)
Statutory profit before tax	42	(95)	(69)
Tax (expense)/credit	(13)	19	-
Statutory profit/(loss) after tax	29	(76)	(69)



BALANCE SHEET

£m	Mar 2019	Sep 2018
Mortgages	60,543	59,074
SME lending	7,619	7,538
Unsecured personal lending	4,508	4,327
Total customer loans	72,670	70,939
Liquid assets and other	15,506	15,767
Other assets	1,979	1,842
Total assets	90,155	88,548
Customer deposits	61,688	60,963
Wholesale funding (excl. TFS)	11,334	10,147
TFS ⁽¹⁾	8,420	8,528
Notes in circulation	2,241	2,254
Other liabilities	1,114	1,472
Total liabilities	84,797	83,364
Equity and reserves	5,358	5,184
Liabilities and equity	90,155	88,548

(1) Net of Virgin Money IFRS3 fair value adjustment

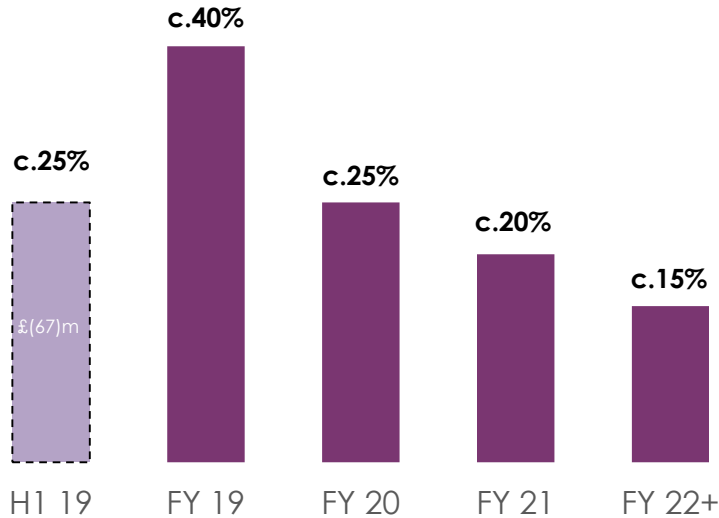


RISK WEIGHTED ASSETS

£m	Mar 2019	Sep 2018
Retail mortgages	9,269	8,794
Business lending	6,901	6,604
Other retail lending	3,625	3,463
Other lending	1,094	1,122
Total credit risk	20,889	19,983
Credit valuation adjustment	167	243
Operational risk	2,606	2,523
Counterparty risk	202	194
Total RWAs	23,864	22,943
Total loans	72,670	70,939
Credit RWAs / total loans	29%	28%
Total RWAs / assets	26%	26%

ACQUISITION ACCOUNTING UNWINDS OVER 5 YEARS

Unwind of acquisition accounting...



...is excluded from underlying performance

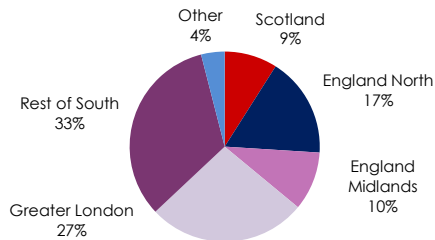
- c.£270m of acquisition accounting principally includes the IFRS3 unwind in relation to mortgages, credit cards and TFS, as well as the IFRS9 acquisition impairment charge
- Acquisition accounting unwinds are excluded from the underlying performance and shown as an exceptional charge in the P&L
- On a statutory basis the acquisition accounting unwind is split broadly evenly between net interest income and impairments
- Acquisition accounting unwind does impact capital
- Unwind profile is based on assumptions of customer behaviour and therefore subject to change



MORTGAGE PORTFOLIO – H1 2019

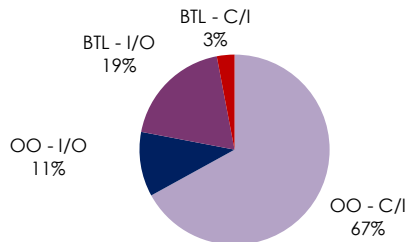
Mortgage lending location (1)

Gross new mortgage lending



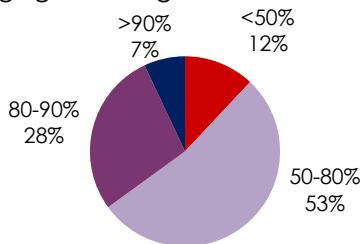
Repayment and borrower profile

Gross new mortgage lending



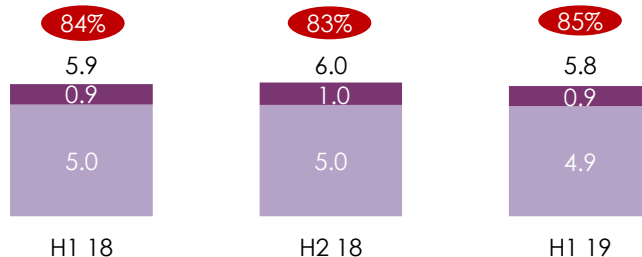
LTV of gross new mortgage lending

Gross new mortgage lending



Gross new mortgage lending volumes

(£bn)



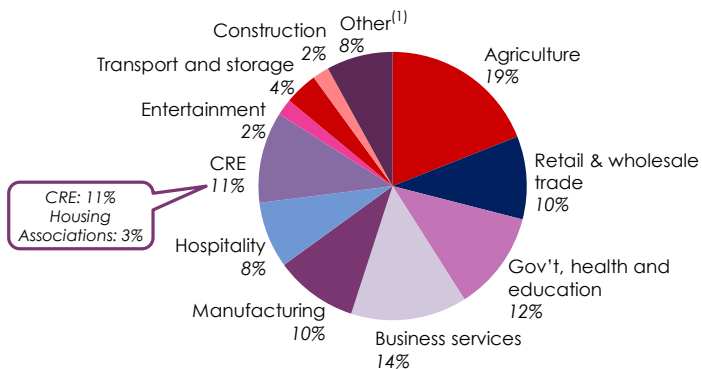
■ Broker ■ Proprietary Channels ● Broker % total new business volume

Note: Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements

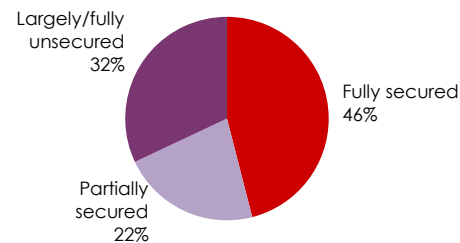
(1) Other includes Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred.

SME LOAN BOOK – H1 2019

SME book

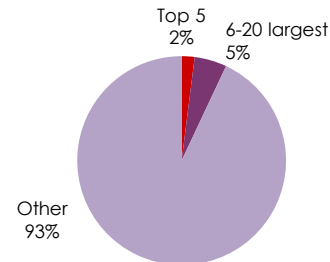


Business lending portfolio by collateral cover



Business banking client concentration

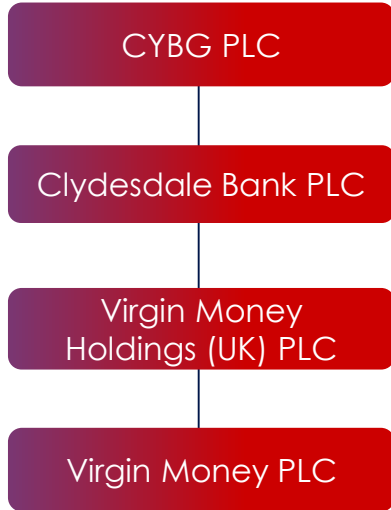
% of total business lending



(1) Other includes utilities, post and telecommunications, resources and finance sectors



SIMPLE, TRANSPARENT GROUP STRUCTURE



CYBG PLC

- Holding Company of the Combined Group
- Future issuing entity for all Regulatory Capital and MREL under single point of entry resolution model

Clydesdale Bank PLC

- Main Operating Entity of the Combined Group

Virgin Money Holdings (UK) PLC

- Intermediate Holding Company - no future issuance expected from this entity
- VMH AT1 instruments subject to a small minority interests deduction at CYBG consolidated level

Virgin Money PLC

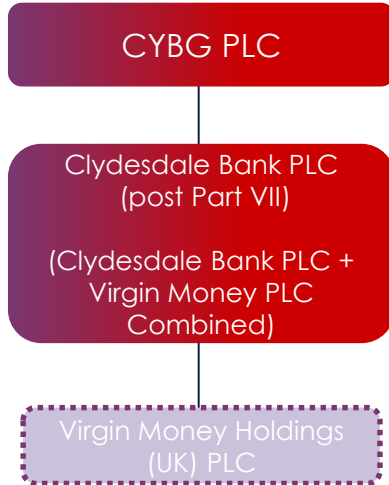
- Retains banking licence and continues to operate as it had done pre-Combination

Our Brands





ON TRACK TO DELIVER TARGET GROUP STRUCTURE



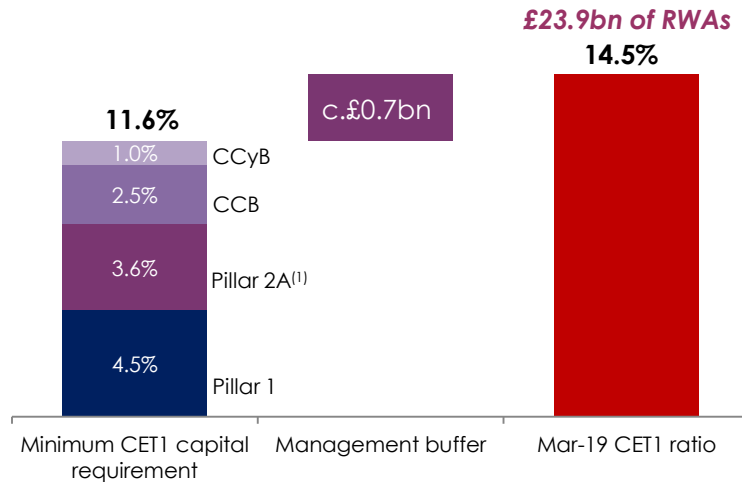
- The FSMA Part VII transfer of the assets and liabilities of Virgin Money PLC to Clydesdale Bank PLC is expected to complete by the end of calendar year 2019
- Virgin Money becomes trading name of CB
- No 'big bang' migration events; subsequent phased, low-volume, low-complexity integration
- Ultimately, post Transfer, VM plc will surrender its banking licence, and Virgin Money Holdings (UK) plc will no longer be a IHC

**Our
Brands**

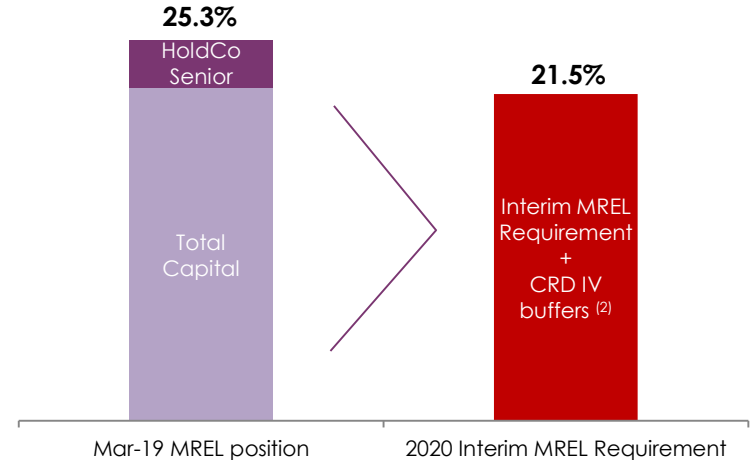


GROUP REMAINS STRONGLY CAPITALISED

Combined Group strongly capitalised...



...ahead of 2020 MREL requirements



- Significant management buffer maintained
- Scope to further optimise capital requirements

- On track to meet final 2022 MREL requirement of two times Pillar 1 + Pillar 2A, plus buffers

1) Incorporates perceived risks relating to the integration of the two businesses

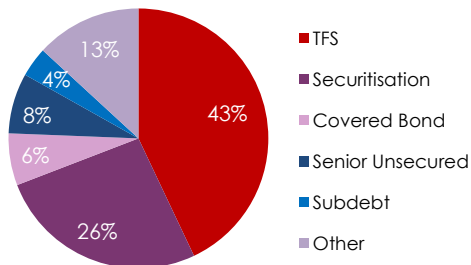
2) Fully Loaded Capital Conservation Buffer plus expected 'standard risk environment' Countercyclical Buffer of 1%

DIVERSIFIED WHOLESALE FUNDING PLATFORM

Diversity of funding sources...

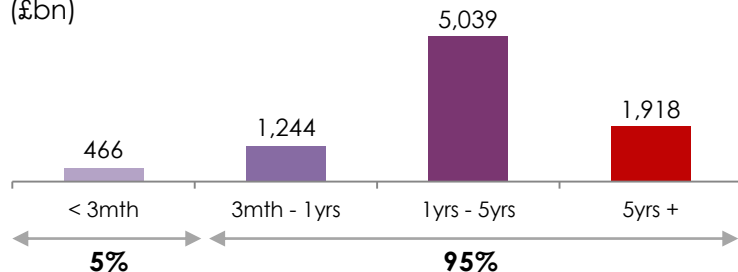
Wholesale Funding by Product

(%)



Debt Securities in Issue by Maturity

(£bn)



...clear, achievable TFS re-financing strategy

- TFS repayment commenced in H1 2019
- TFS refinancing to continue in advance of contractual maturity, supported by:
 - Savings growth across Retail and SME - Virgin Money brand combined with CYBG current account offering offers significant growth opportunity
 - SME liability growth through the RBS incentivised switching scheme
 - Steady-state wholesale funding requirement of £2–3bn per annum



CREDIT RATINGS

- All ratings affirmed post acquisition
- Fitch long term rating placed on Rating Watch Negative as part of a wider action on a number of UK banks, following Fitch's reassessment of the probability of a no-deal disruptive Brexit scenario

		Credit Rating			Product	Programmes
		MOODY'S	S&P Global	FitchRatings		
CYBG PLC	Long-term	Baa3 / Positive	BBB- / Stable	BBB+ / Rating Watch Negative	Senior Unsecured, Subordinated Debt	GMTN
	Short-term	P-3	A-3	F2	-	-
Clydesdale Bank PLC	Long-term	Baa1 ⁽¹⁾ / Positive	BBB+ / Stable	BBB+ / Rating Watch Negative	Covered Bonds, RMBS,	RCB, Lanark. Senior Unsecured to be established in 2019
	Short-term	P-2	A-2	F2	Money Market (CD, CP)	-
Virgin Money Holdings (UK) PLC	Long-term	Baa3 / Positive	-	BBB+ / Rating Watch Negative	Senior Unsecured, Subordinated Debt	GMTN (No new issuance expected)
	Short-term	P-3	-	F2	-	-
Virgin Money PLC	Long-term	Baa1 / Positive	-	BBB+ / Rating Watch Negative	Senior Unsecured, Covered Bonds, RMBS	GMTN, RCB, Gosforth
	Short-term	P-2	-	F2	Money Market (CD, CP)	-

1) Long-term bank deposit rating



MODEST, STABLE STRUCTURAL HEDGE BENEFIT

- Structural hedge used to minimise volatility on income related to low & non-interest bearing liabilities and equity

6 months ended £m	Mar-18			Mar-19		
	Average balance	Gross income	Net Income	Average balance	Gross income	Net income
NIBs	10,008	54	28	10,130	54	11
Administered Deposits	5,305	18	6	7,812	34	0
Other	402	2	1	425	2	1
Equity	5,056	20	7	4,919	21	(1)
Total	20,771	94	42	23,286	111	11

94 → 13% of NII

111 → 15% of NII

- Structural hedge of £23bn, or 26% as a percentage of balance sheet
- Weighted average life of 2.5 years, in line with the expected life of liabilities of 5 years
- Generated incremental net interest income of £11m over 3mL or £111m in total in H1 2019

1) Gross income: Average balance hedged over the period multiplied by the average yield on the fixed leg of the swap. Hedging may have been in the form of external swap execution or use of internal offsetting exposures, so the yield is a proxy derived from income that was allocated to the products based on swap rates at the time the hedging requirement arose.

2) Net income: The income generated by the hedge in excess of 3mL



INTERIM FINANCIAL RESULTS 2019

CYBG PLC





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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', 'forecasts', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward looking statements, as well as those included in any other material discussed at the presentation, are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group (including but not limited to the integration of the business of Virgin Money Holdings (UK) plc and its subsidiaries into the Group), trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geopolitical factors, changes to its board and/ or employee composition, exposures to terrorist activity, IT system failures, cyber-crime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England, the FCA and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, capital, funding and/ or asset position and/ or credit ratings of the Group, future capital expenditures and acquisitions, the repercussions of the UK's referendum vote to leave the European Union (EU), the UK's exit from the EU (including any change to the UK's currency), Eurozone instability, and any referendum on Scottish independence.

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