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
Financial rationale	Ian Smith
Technology platform and integration	Debbie Crosbie
Summary	David Duffy
Q&A	

TRANSACTION TERMS & VISION FOR THE FUTURE

DAVID DUFFY, CEO

TRANSACTION TERMS

Key terms	Synergies	Governance	Key dates
Recommended all-share offer 1.2125 new CYBG shares per Virgin Money share	**c.£120m** of annual run-rate cost synergies expected by end of FY2021 Plus incremental benefit from avoidance of VMDB future running costs	**Board and management team continuity** Jim Pettigrew to remain Chairman David Duffy to remain CEO Ian Smith to remain CFO	**Q3 2018** Shareholder documentation published and respective meetings to be held
Ownership split **c.62% to existing CYBG** shareholders and **c.38% to Virgin Money** shareholders	**Further upside** potential from revenue and funding synergies Revenue benefit derived through leveraging the Virgin Money brand	**2 Board seats** for Virgin Money board members	**Q4 2018** Expected completion subject to shareholder and regulatory approval
Significant upfront premium to Virgin Money shareholders 19% premium to 4th May closing price 35% vs 3mth VWAP to 4th May	**Material EPS accretion and acceleration of progressive dividend ambition**	**Virgin Enterprises** board seat as part of brand licence agreement	

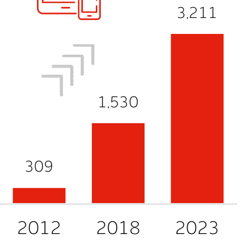
Recommendation of both boards and an irrevocable undertaking from Virgin Group

CYBG

WE ARE REACHING AN INFLECTION POINT IN THE BANKING INDUSTRY

Customer behaviour change

+>900%



Mobile banking transactions (m)[1]

New entrants

Atom
monzo
STARLING BANK
XINJA

FinTech & NeoBanks

Tech change

API
AI
RPA
BLOCKCHAIN

Regulatory change

PSD2
CMA Competition & Markets Authority

New business models

CUMULATIVE EFFECT OVER TIME

INFLECTION POINT

Winners:

Lead on technology to deliver superior customer outcomes, flexible, adaptive and forward thinking

Losers:

Behind the curve on technology development and/or fail to adapt

(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

SCALE

Virgin money

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

TWO UK CHALLENGERS BECOME A TRUE NATIONAL COMPETITOR

Strong customer proposition with an iconic brand

Virgin money

+37

A leading UK NPS

A wide range of retail and SME products

CYBG

Complementary product expertise

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

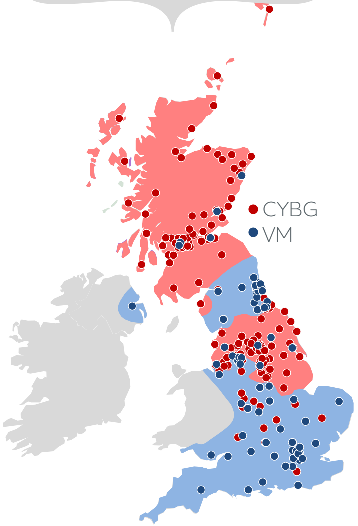
Virgin money

All banking products integrated digitally on the iB platform

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

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

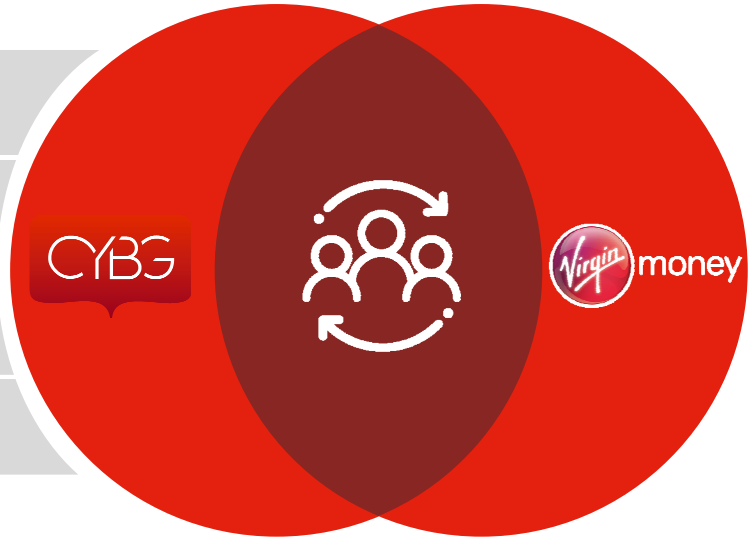
- Developing our SME digital proposition using our market-leading iB platform
- Platform capability facilitates 3rd party software integration

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

Virgin money

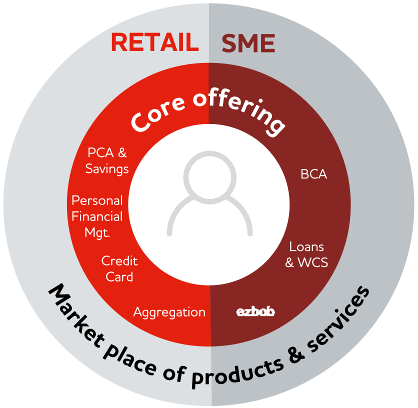
Customer-centric

Scale to compete

National coverage

Digital innovator

Full-service product range



FINANCIAL RATIONALE

IAN SMITH, CFO

FINANCIAL HIGHLIGHTS OF THE TRANSACTION

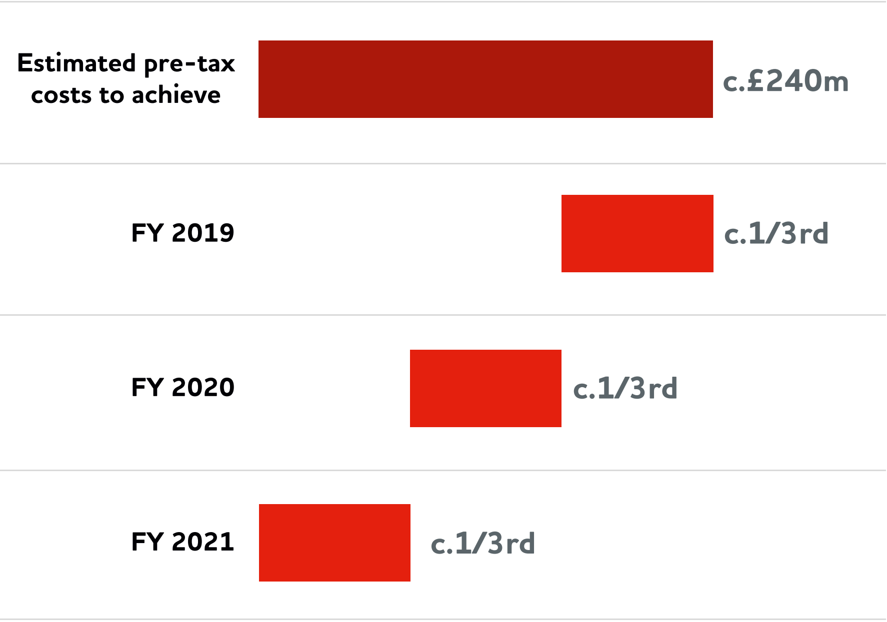
Significant cost synergies expected	- Annual run-rate cost synergies of c.£120m delivered by end of FY 2021 - Additional benefit from avoidance of VMDB future running costs - Expect additional value creation from revenue and funding synergies over time
Diversified, customer-led funding model	- Diversified 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	- 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	- 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	- 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	c.£120m	- 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	c.10%	- Optimisation of branch network and associated costs - Limited overlap in customer-facing roles
Organisational design	c.30%	- Remove duplication of senior management roles
Operational efficiency	c.30%	- Remove duplicated central function roles - Integration of customer service operating models and increased digitisation
Central cost management	c.30%	- 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



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

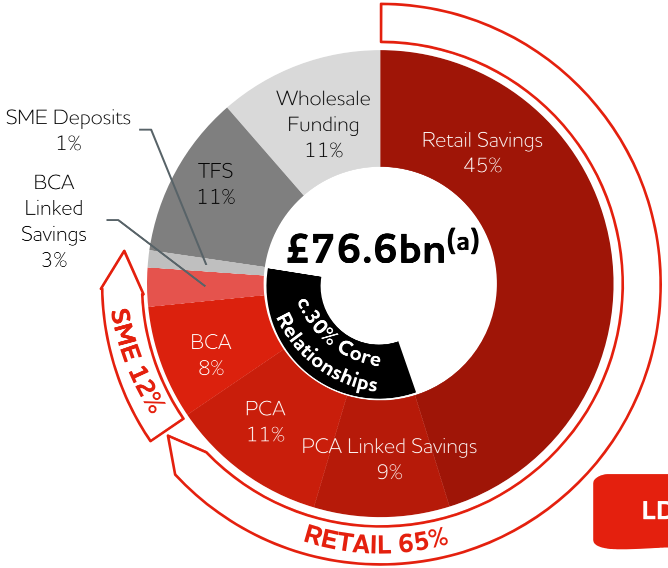
- Exclusive use of Virgin Money brand for Financial Services in the UK
  - Perpetual agreement
  - Licence fee of £12m in year 1 with scaled increases thereafter
  - Strong partnership with Virgin Enterprises Limited (owner of the Virgin brand)
- Rebranding cost of approximately £60m pre-tax, largely 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

Virgin money	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
Virgin	Wider Virgin Group offers enhanced partnership opportunities

DIVERSIFIED, CUSTOMER-LED FUNDING MODEL

Diversified funding base remains[b]



LDR: 117%

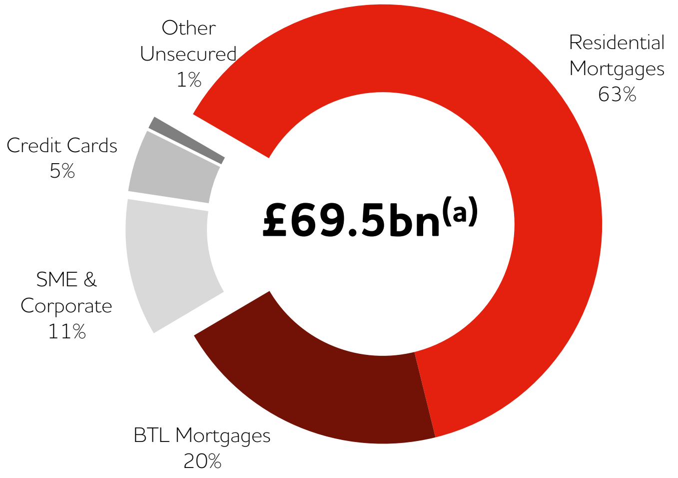
Clear funding strategy

- 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

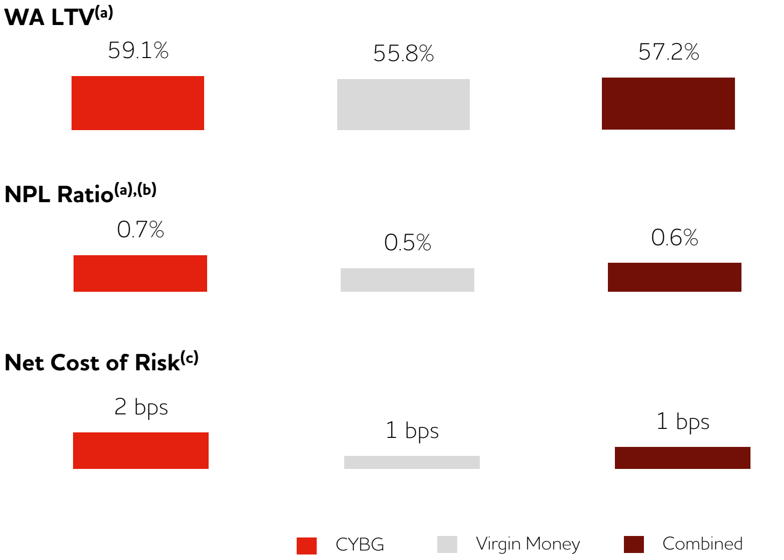
(a) Based on CYBG balances as of 31 March 2018 and Virgin Money balances as of 31 December 2017
(b) Based on TFS drawings of £6.4bn reported by Virgin Money as at February 2018

COMPLEMENTARY MODELS CREATES A LOW RISK COMBINED PORTFOLIO

Combined lending book weighted to low risk mortgages



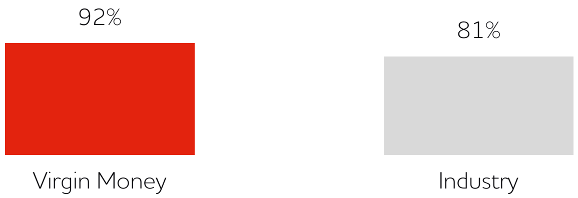
High quality mortgage book



(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]

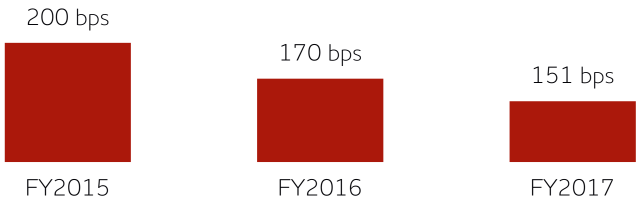


…future growth from a broader product set…

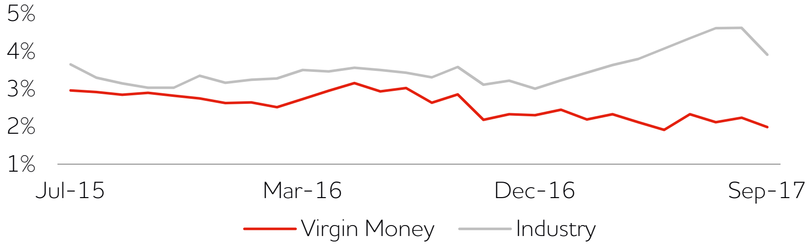
- + 8% retail spend per VM card in 2017
- Opportunity for growth in under-penetrated CYBG customer base
- Virgin Atlantic Airways partnership expected to drive an increase in retail spend
  - Prime, affluent customer base
  - Launched in 1H18

…impairment ratio has been reducing…[b]

VM Cards - Cost of Risk (as disclosed)



… and charge off rates lower than industry average[c]



(a) Stock of book concentrated in low or medium risk segments, with lower than 2.5% expected loss rate (b) Based on December financial year end (c) Source: Virgin Money 2017 FY results - on 12 month lagged basis, annualised asset charge off rate

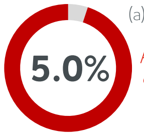
CREDIT CARD EIR ACCOUNTING TO BE REVIEWED ON COMPLETION

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



(a) *of pro forma combined group*

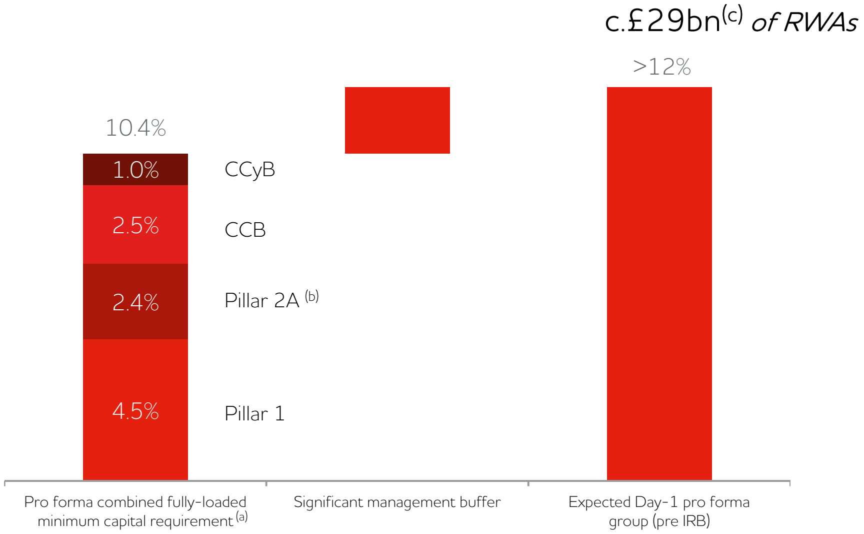
Effective interest rate: 6.8% (b)

Assumed average customer life: 7 Years (b)

(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

CYBG IRB approval	VM mortgage risk weight reduction	Earnings accretion	Synergies	Costs to achieve	RWA growth	**Overall 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

Q3 2018

Shareholder documentation published

- Offer/scheme documents posted
- CYBG prospectus and circular

Q3 2018

CYBG and Virgin Money shareholder meetings

CYBG shareholders vote to:

- Approve transaction
- Approve issuance of consideration shares

Virgin Money shareholders vote to:

- Approve trademark licence agreement
- Approve scheme

Q4 2018

Completion

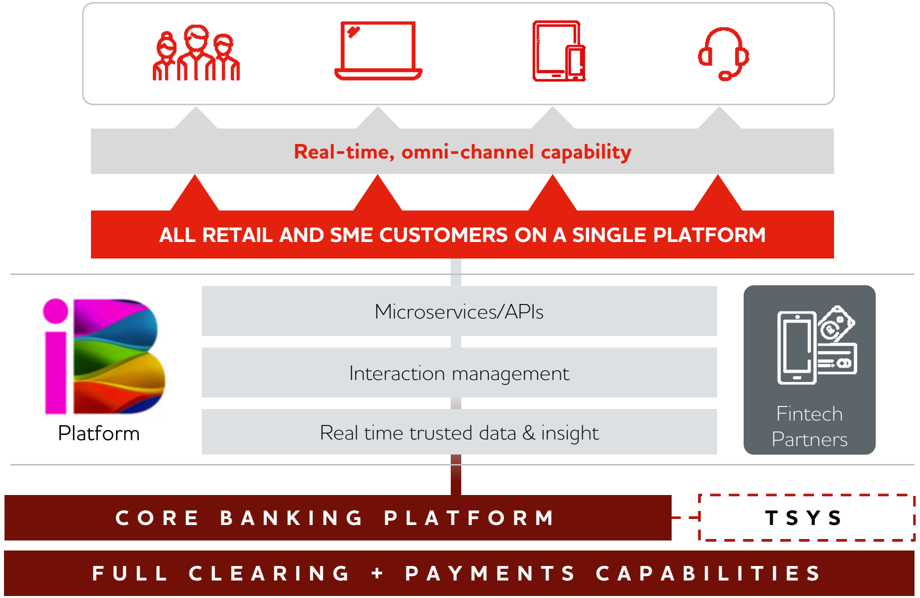
- Subject to shareholder and regulatory approvals

TECHNOLOGY PLATFORM AND INTEGRATION

DEBBIE CROSBIE, COO

ESTABLISHED TECHNOLOGY PLATFORM AND INTEGRATION CAPABILITIES

An integrated, flexible and scalable platform



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

Owen Price
Senior Manager, Investor Relations
CYBG PLC
t: +44 20 3216 2785
m: +44 7484 908 949
e: owen.price@cybg.com

www.cybg.com/investor-centre

APPENDIX

VIRGIN MONEY OVERVIEW

Financial performance and key metrics

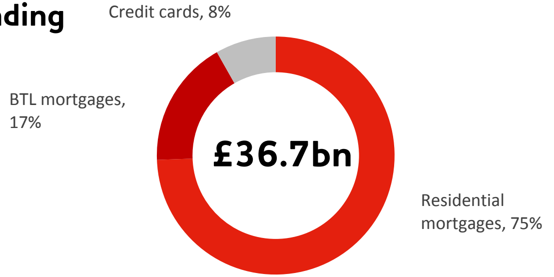
Financial performance (£m unless stated)	FY 2016	FY 2017
Net interest income	519	595
Non-interest income	68	71
Total operating and administrative expenses	(336)	(349)
Impairment losses on credit exposures	(38)	(44)
Underlying profit on ordinary activities before tax	**213**	**273**
Tangible Net Asset 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

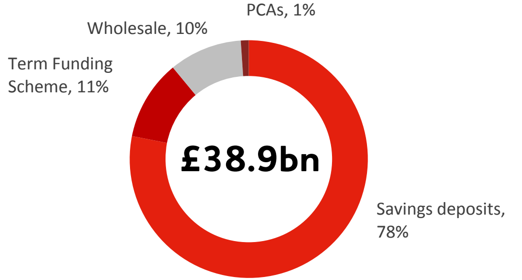
- Serve over 3.4m customers
- An average 3.0k FTE during 2017
- Network of 74 Stores and 8 Virgin Lounges
- Gross market share of 3.3% in Mortgages and 4.1% in Credit Cards
- Note: Virgin Money UK is entirely separate from Virgin Money Australia

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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