30 July 2018

CYBG PLC: Third Quarter Trading Update

CYBG PLC ("CYBG" or the "Group") confirms that trading in the three months to 30 June 2018 has been in line with the Board's expectations. The all-share offer for Virgin Money continues to progress as planned.

Sustainable balance sheet growth despite competitive environment

- Year-to-date mortgage growth of 3.8% (9 months annualised) to £24.2 billion
  - As previously guided, reduced Q3 mortgage drawdowns due to lower applications in Q2
  - FY18 mortgage growth expected to be at lower end of guidance range, as previously indicated
- Core SME growth of 4.7% (9M annualised) with £420 million of gross loans and facilities written in Q3
- Deposit balance growth of 4.5% (9M annualised) managed in line with asset growth
- Asset quality remains strong with a net cost of risk of 12 bps (9M annualised)

NIM of 218 bps (9M annualised) in line with guidance and reiterating c.220bps for FY18

- The mortgage market remains extremely competitive with continued front book pricing pressure
- During Q3 retail asset pricing pressure was offset by improved SME margins and lower liquidity costs
- Diverse funding sources enables deposit margin management in a highly competitive market

CET1 ratio strengthened and significant progress made on the Group's IRB application

- CET1 ratio of 11.4% with c.15 bps of CET1 capital generation in Q3 in line with expectations
- Mortgage IRB application continues to progress well with Module 9 of the PRA's process now complete. Final actions are being progressed and, subject to PRA review, accreditation is expected in October 2018
- In addition, significant progress has been made on the Group's IRB application for SME lending with accreditation now expected much earlier than previously planned and all of our IRB models for retail unsecured have now been submitted to the PRA ahead of schedule

Continue to progress the recommended all-share offer for Virgin Money

- Shareholder documentation expected to be published on 31 July, with meetings held on 10 September
- Targeting completion in calendar Q4 2018, subject to shareholder and regulatory approvals

David Duffy, Chief Executive Officer of CYBG PLC, commented:

"We have delivered another solid performance this quarter, achieving sustainable lending and deposit growth in a highly competitive market while maintaining a stable net interest margin and delivering further cost and process efficiencies in the business. We remain on track to deliver our guidance for FY18.

Our position as one of the UK's leading digital banks continues to strengthen: in May we launched our fully API-enabled account aggregation for customers and this month we announced a new innovative partnership with PayPal underlining our ability to work with tech players large and small to deliver new and convenient services for customers.

The economic and political environment in the UK remains uncertain, but we remain focused on delivering our strategic objectives and capturing further growth opportunities. This includes the RBS Alternative Remedies Scheme where we plan to play a significant role following confirmation of the scheme timetable.

We continue to expect our recommended all-share offer for Virgin Money to complete in calendar Q4 2018, subject to shareholder and regulatory approvals, creating the UK's first true national competitor to the status quo."

Customer balances

(£bn)	At 30 Sept 17	At 31 Mar 18	At 30 Jun 18	YTD growth (annualised)
Mortgages	23.5	24.1	24.2	3.8%
Core SME	6.8	7.0	7.1	4.7%
Retail unsecured	1.2	1.2	1.2	5.0%
Deposits	27.7	28.4	28.6	4.5%

In late 2017 we brought mortgage processing back onshore as part of our customer journey improvement initiatives. As guided at the interim results, during the implementation, servicing and fulfilment delays arose which reduced our application levels for a period and led to lower drawdowns in Q3 resulting in a broadly stable balance at 30 Jun 2018. We expect Q4 volumes to return to a level in line with expectations such that FY18 mortgage growth is at the lower end of our guidance range.

We maintained momentum in SME origination, with £420 million of gross loans and facilities written in the quarter. New business drawdowns in Q3 were £453 million, with YTD annualised net core SME lending growth held at 4.7%. We continue to see a healthy pipeline to support new lending in Q4 2018, in line with our asset growth targets and our commitment to lend £6 billion to our customers over 3 years.

We continue to manage our deposit balances in line with our asset growth and have delivered YTD growth (9M annualised) of 4.5%, with progress in both Retail and SME across our diverse range of deposit products. B continues to perform well, growing to over 190,000 customers and £1.8 billion of deposits.

Asset quality remained strong with an annualised net cost of risk of 12 bps in the first nine months.

Net Interest Margin (NIM)

NIM has been maintained at 218bps for the nine month period (annualised) in a competitive marketplace with continued pressure on mortgage pricing partially offset by an improved SME margin and lower liquidity costs. We continue to expect the Group to meet its guidance of c.220 bps for FY18.

Conduct

As expected, PPI complaint volumes remain elevated, but are trending in line with our expectations for the second half of 2018. We continue to expect a slow-down in complaint volumes into FY19 due to the impact of the Financial Guidance and Claims Act that became effective in July which implemented a fee cap and limits to cold-calling for Claims Management Companies.

Capital

The Group's CET1 ratio was 11.4% at 30 June 2018, with c.15 basis points of capital generation in Q3.

In respect of IRB, Module 9 of the PRA's process has been completed for mortgages. Final actions are being progressed and, subject to PRA review, accreditation is expected in October 2018, in accordance with the Group's guidance. The Group has also made significant progress in its IRB application for SME lending and now expects accreditation much earlier than previously planned. In respect of retail unsecured lending, all of the portfolio models have now been submitted to the PRA for review and ahead of schedule. The Group will provide further updates in due course as appropriate.

Virgin Money recommended all-share offer

The all-share offer for Virgin Money continues to progress in line with expectations. Shareholder documents are expected to be issued on 31 July with meetings on 10 September and completion in calendar Q4 2018.

Outlook

The political situation in the UK remains highly uncertain and the potential impact on the UK economy remains unclear. However, we remain focused on our strategy to deliver the Group's FY18 and medium-term targets.

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