



CYBG

# CREATING THE FIRST TRUE NATIONAL COMPETITOR TO THE STATUS QUO

RECOMMENDED ALL-SHARE OFFER FOR VIRGIN MONEY

18 June 2018

# AGENDA

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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 4<sup>th</sup> 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

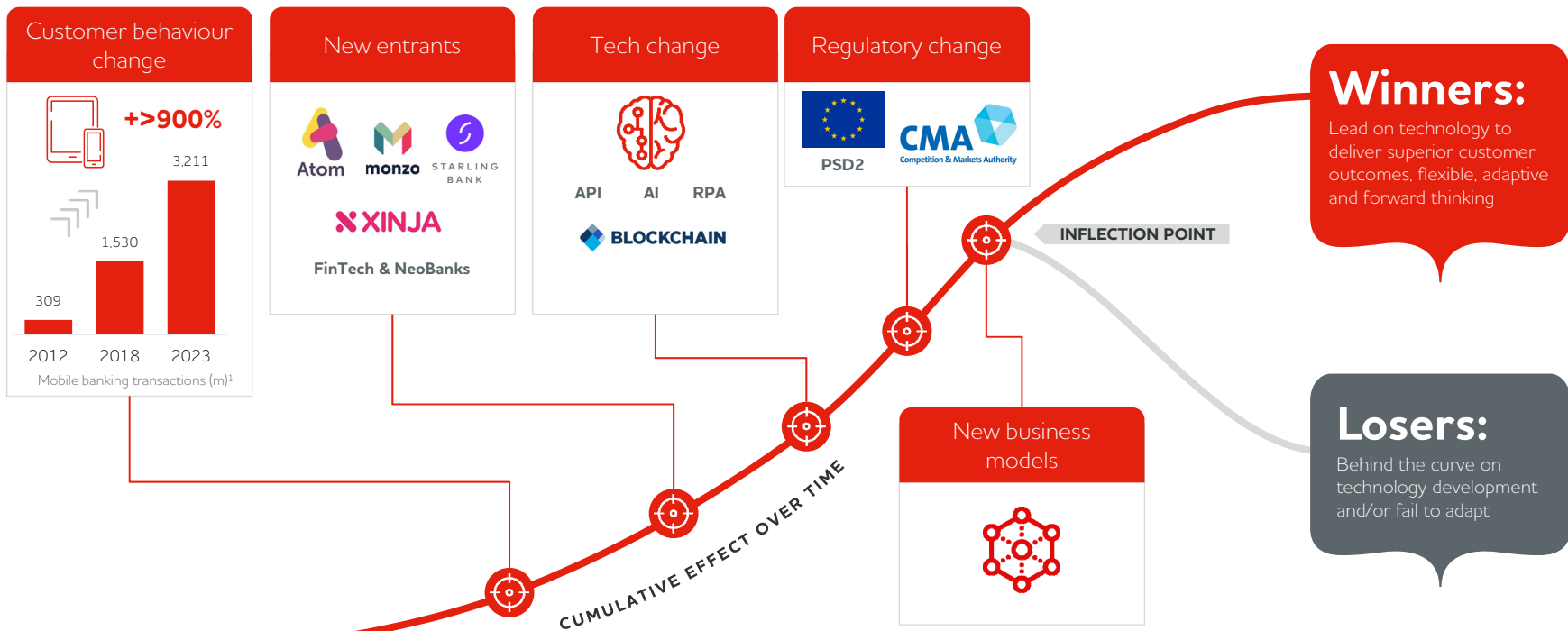
Shareholder documentation published and respective meetings to be held

### 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

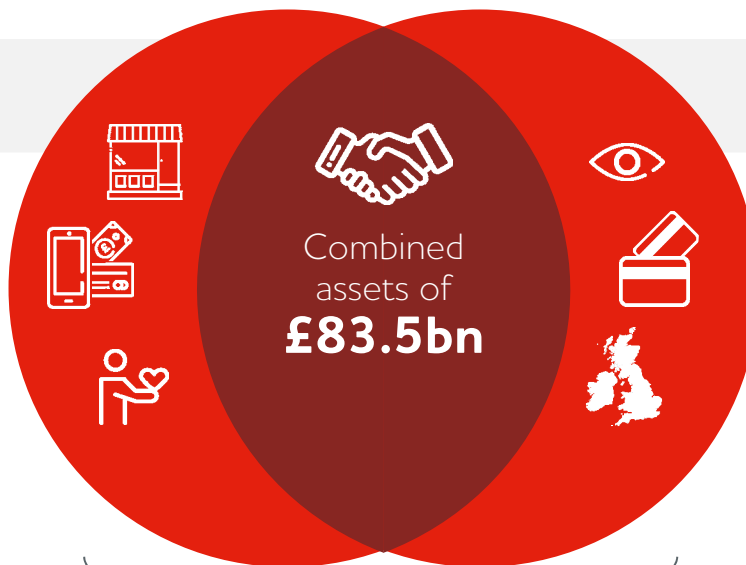


(1) Source: CACI research May 2018

# THIS TRANSACTION COMBINES COMPLEMENTARY BUSINESSES AND DELIVERS SCALE

## 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

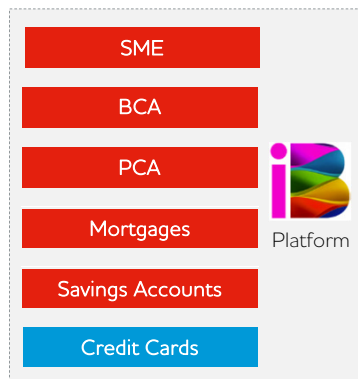
CYBG

Complementary product expertise

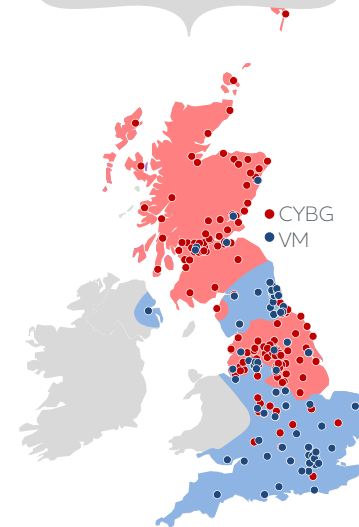
- SME
- BCA
- PCA
- Mortgages
- Savings Accounts
- Credit Cards
- Investment Products



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

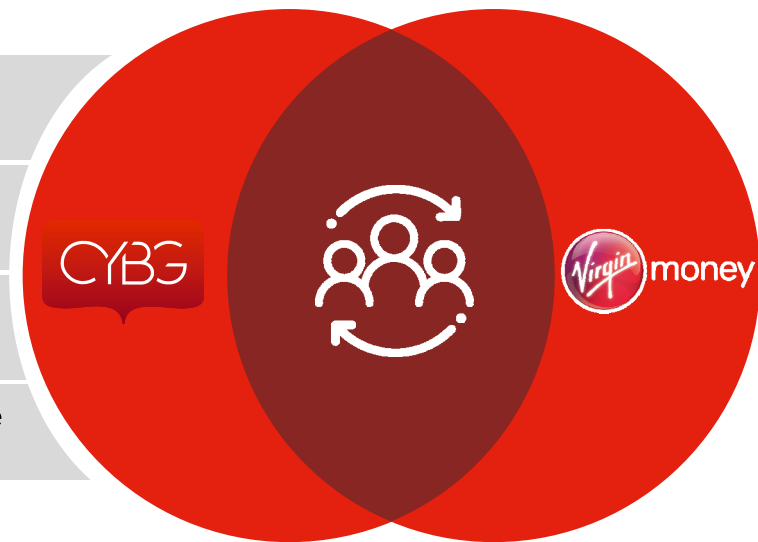
## BRINGING TOGETHER TWO HIGHLY COMPATIBLE CULTURES

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



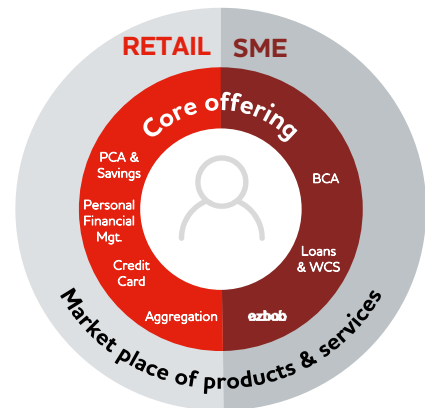
Retail & SME proposition  
with scale



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

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

## 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

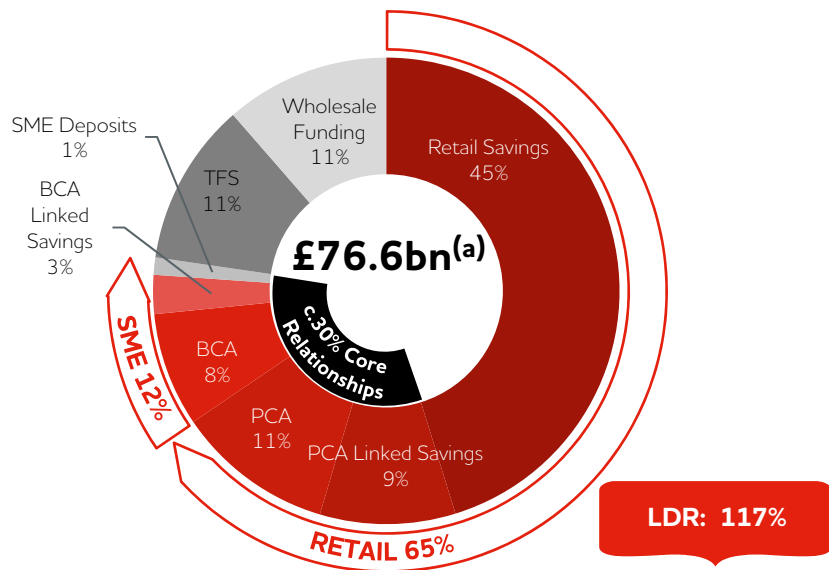


Wider Virgin Group offers enhanced partnership opportunities



# DIVERSIFIED, CUSTOMER-LED FUNDING MODEL

## Diversified funding base remains<sup>(b)</sup>



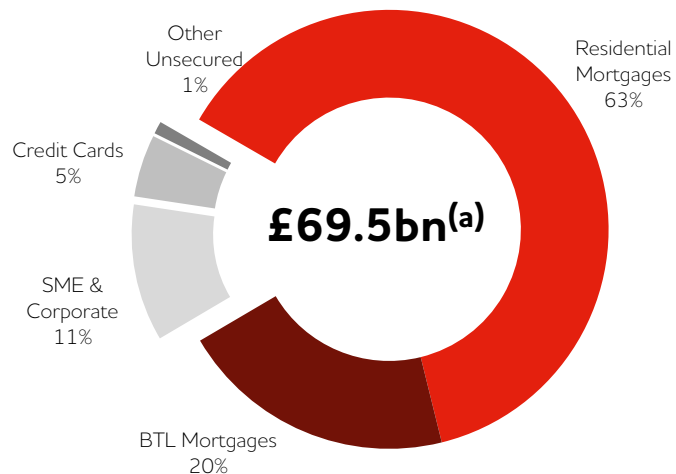
## Clear funding strategy

- 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

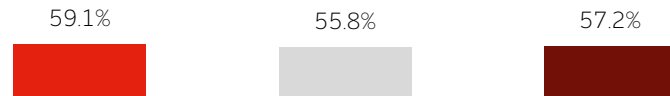
# COMPLEMENTARY MODELS CREATES A LOW RISK COMBINED PORTFOLIO

## Combined lending book weighted to low risk mortgages

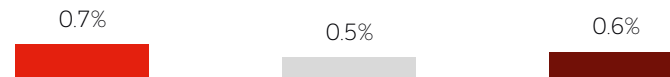


## High quality mortgage book

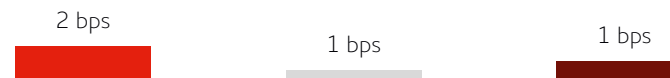
### WA LTV<sup>(a)</sup>



### NPL Ratio<sup>(a),(b)</sup>



### Net Cost of Risk<sup>(c)</sup>



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...<sup>(a)</sup>

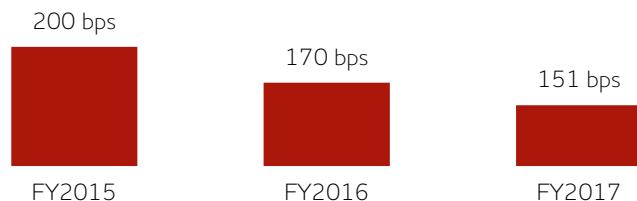


## ...future growth from a broader product set...

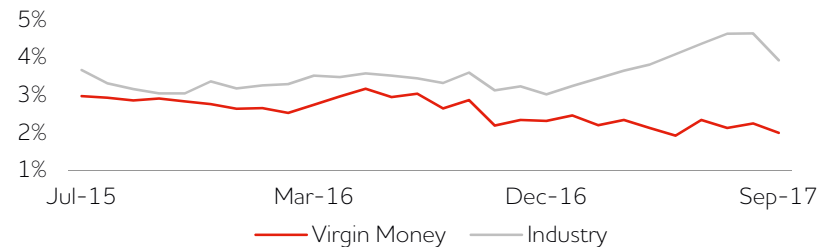
- + 8% retail spend per VM card in 2017
- Opportunity for growth in under-penetrated CYBG customer base
- Virgin Atlantic Airways partnership expected to drive an increase in retail spend
  - Prime, affluent customer base
  - Launched in 1H18

## ...impairment ratio has been reducing...<sup>(b)</sup>

VM Cards - Cost of Risk (as disclosed)



## ... and charge off rates lower than industry average<sup>(c)</sup>



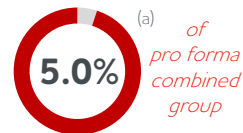
# CREDIT CARD EIR ACCOUNTING TO BE REVIEWED ON COMPLETION

## 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%

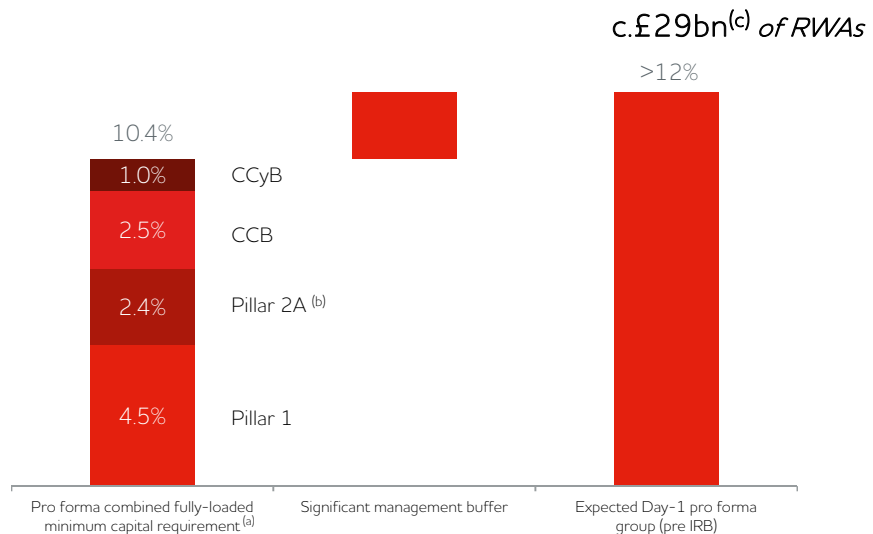
Assumed  
average  
customer life

(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<sup>(b)</sup>
- 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 1<sup>st</sup> 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
<b>Loan growth</b>	Mid single digit % CAGR to FY 2019	✓ Sustainable growth ambition continues
<b>LDR</b>	< 120%	✓ Diversified funding model continues
<b>CIR</b>	55% – 58% by FY 2019	✓ CIR at lower end of target range; significant cost synergies over time
<b>RoTE</b>	Double digit by FY 2019	✓ Double digit returns target maintained
<b>Dividend</b>	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

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# 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)
<b>Underlying profit on ordinary activities before tax</b>	<b>213</b>	<b>273</b>
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%

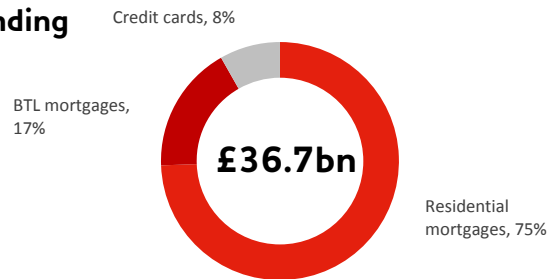
### Key highlights

- 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

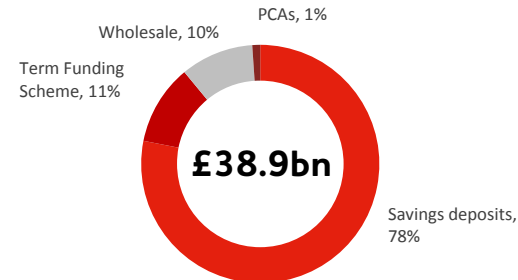
### Net lending

£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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