

**CYBG PLC Capital Markets Day****David Duffy, CYBG**

Okay, all right. We're going to get started. So, good morning everyone and welcome to the CYBG Capital Markets Day. A special welcome I think to our Australian investors, there are plenty of you who've made the trip over. And of course, to everybody on the webcast, welcome to the day too. The team and I are really looking forward to giving you a good summary today of what our strategy is and how we're going to deliver it. So, without further ado I'll go to the formal presentation.

So, before I start, essentially what you'll hear today in the various presentations is that our strategy and targets are based on a self-help story, and we're pulling the levers that are in our control. So, taking out costs and managing growth to optimise our returns. So, our delivery will be supported by -- I think you know, an experienced leadership team with a strong track record of delivering growth and cost reductions and capital optimisation and our execution will be greatly enhanced by the revitalised Virgin Money brand and underpinned by a single leading digital technology platform.

If you look at this slide here today, I've outlined the full agenda on the slide, and I will kick us off by talking to our strategy and how it will deliver our group targets. You'll then hear from Helen, who will take us through our plans to revitalise and leverage that highly trusted national Virgin Money brand. And the three heads of the business areas will explain their plans to deploy unique propositions for sustainable competitive outcomes and to disrupt the market in a number of areas.

At that stage, we'll break for a Q and A session focused on the strategy, brand and three business divisions, followed by a coffee break. And in the latter half the morning you'll hear more about the leading technology platform we have built, and how we intend to deploy the platform and future propositions to deliver both the unique customer proposition and an additional £50 million in net cost reductions. Ian will then take you through the financial plan that our strategy will deliver, and we'll provide some more detail on our targets and explain why we are confident that we will deliver on the promises that we are making. And I will close today than with a brief recap of our strategic plan, and I'll try to give you a sense of what I think we can achieve as Virgin Money beyond the period defined by the targets that we've announced.

So, over the course of the day you will hear a lot about the new Virgin Money brand, and I'm convinced that a trusted and innovative brand will be critical to success in the evolving environment especially. So, let me start by showing you a short film that captures what I think is the essence of the brand and why we're so excited about now being able to fully leverage it.

[video plays]

Great. I'm sure that's woken a few of you up! But I hope the film has given you a little bit of an understanding of how we think about the opportunities with the Virgin brand and the different companies and also highlights some of the positioning of the new Virgin Money brand. So, you'll hear us talk about a new Virgin Money brand today with different imagery. So, we will -- Helen will come to that.

But with that in mind, it's worth a quick refresh of the set of capabilities that the acquisition of Virgin Money provided us, so on this slide you'll see in more detail how the combined strength of the two banks gives us the confidence that we can deliver on our targets over the next few years, despite the current environment. Before the acquisition, CYBG had a regional focus, as you know, with a new digital bank we were building that would have taken significant brand investment to reach a national audience. And our investment in the digital side of things since the IPO has delivered a leading digital platform, complete with open API technology and we'll talk more about that later. Broadly, we have migrated all of our customers onto this single platform, something that the majority of our competitors have not achieved. We also had a strong business bank with the full range of personal and business products, but we were subscale in credit cards and in mortgages. By adding the complementary strengths of Virgin Money, we now have, in my opinion, a unique brand and a leading digital platform that will support all 6.4 million of our combined customer base.

The combination of the brand with the technology is what gives me great confidence that we can now differentiate and win in the market. As a result of the transaction, we now have the ability to compete sustainably with full scale national distribution; a diverse range of competitive, personal, and business products; and all of the benefits a more diversified asset and liability strategy would bring nationally.

And on this slide a bit of caution. While we are excited about that brand potential and have lots of other opportunities to discuss that today, we recognise the reality of the economic and competitive environment we're facing into. The graphs on the left here show the latest economic outlook from Oxford Economics with forecasts for, as you can see, modest GDP growth, some small rises in the base rate and a continuation of low unemployment levels. This outlook kind of reinforces our expectations that the market headwinds that our sector faces today, will continue for a while. And we have been, in our minds, even more prudent in our own economic assumptions by assuming just one base rate rise between now and the end of FY22.

The consequence of this, I suppose, is a continuation of the reality that we've all experienced, low interest rates, compressed lending margins, and rising funding costs. And I think those factors combined with new competitive threats from changing technology and business models, they've defined what we see as the capabilities that are critical for our business going forward. When we were considering the outlook for both the economy and our industry, we concluded that a sustainable competitive profile in the future would require certain minimum capabilities, including a national brand and distribution model, which we've talked about before; flexible market leading technology; a full product range; and sufficient scale, which is critical, in the market, to deliver efficiencies.

As a result of the transaction, we're now facing into these headwinds with, I think all the advantages of a unique and trusted national brand, much greater scale, product diversity, and significant cost takeout opportunities, which we've mentioned earlier. This gives us all the ingredients to execute the strategy that we will talk you through today. In addition to mitigating the market headwinds, our plan will deliver a best in class experience for customers, margin accretive asset and deposit growth, and market leading technology capabilities and also significant cost reduction through the integration, scale and digitisation opportunities that we see and are clearly, most importantly, within our control.

And now, as a team, I think hopefully you'd agree, we have a strong track record of delivery. For those of you who are less familiar with us, over the past few years, we have delivered nearly £100 million in net cost reduction; rolled out a new technology platform - and you'll hear more about it from Fraser - which now serves all of our customers; delivered 29 significant separation projects from NAB; and delivered our IRB accreditation programme. Now, that set of outcomes was all achieved while delivering good growth in both our personal and business balance sheets, and I mention these achievements because they reinforce my confidence that this team can deliver on the targets we are setting out - and specifically, will deliver a successful integration process.

And I should mention the integration process is low complexity versus similar industry transactions, and we can talk more about that later. We're now well under way with our plan to establish Virgin Money as our sole brand across all product lines and channels, supported by the existing technology platforms we have. And I think that's going to allow us to crystallise the majority of the synergies we have previously spoken about, and at the same time, will allow us to take our time migrating the back books of customers and decommissioning legacy platforms in a low risk way and that will yield the remaining synergies we've discussed. And I think this approach minimises the level of technology integration we need to undertake between the two sets of infrastructure and allows us to use recognised industry schemes, which some of you are familiar with, to mitigate the majority of the customer's risk. Fraser will, I think, talk a little bit more about this in his section later.

As a result of having completed all of those post IPO transformation projects that I just mentioned, the critical thing is we're freeing up very significant capacity to address the integration, as well as deploying very experienced resources from those projects back into the integration process. So, I'm very confident, therefore, that we have the resources and the capabilities importantly required to deliver a successful integration.

In relation to that, I'm pleased to be able to announce as well that we've recently had another important milestone in the integration, having secured approval from both regulators and received the initial court approval for our FSMA part VII submission last week. And this means we are on track to meet our

targeted timeline of October 2019 for bringing the two banks together under a single banking licence, and Fraser will give you a little bit more detail on that later. That's a very significant development and speaks well to the execution capability of the team.

So, let me turn now from our history to the future and having set the scene a little bit with our previous performance, I'll turn to the specifics of the strategy going forward. We started this year by launching our unifying group purpose and values and this involved over 2,500 colleagues, and Helen will discuss this more in her section, and all I would say at this stage, is that I believe our purpose is unique and it's not bound by the traditional DNA of a bank and I think that is a competitive advantage.

Our strategic ambition is very straightforward. It is to disrupt the status quo. That is what we set out to achieve with the transaction and following the last six months of working with the two heritage organisations, I can tell you that I'm even more confident that we can achieve this outcome.

Underpinning this strategic ambition are our four strategic priorities, which I'll go through in turn. Pioneering growth means that we will achieve growth with a pioneer mindset and will be very particular about that. We will not chase low margin, high volume business and instead will seek innovative and unique outcomes for customers through our existing capabilities but also new partnerships, and also the opportunities we have with the other Virgin companies, and all done on a national scale. We will delight our customers and colleagues by delivering market leading experiences for customers and a motivating work environment for our colleagues, and that will be achieved through the deployment of new propositions and our digital capabilities. Delivering the super straightforward efficiency will guide us in how we transform the way we run the group. We'll make every single process, experience and even the language we use straightforward. The work we have undertaken in this space alongside the integration planning and transformation program we will undertake, give us really strong confidence in our ability to drive even stronger reductions in the cost to serve and to deliver efficiency for all of our stakeholders. And lastly, our focus on discipline and sustainability will see us continue to grow in a very disciplined way, and we will ensure that we are here to stay for the long term.

Our priorities of course will be powered by strong capabilities that I've described, as you will see later. We're launching a unique brand into the market, it's a new Virgin Money brand. Our people, led by our unifying purpose that I mentioned, will be key to delivering our strategy and our leading digital platform will enable our ambition to disrupt the status quo. And very importantly, all of this is underpinned by our values, which will guide us on how we deliver every single day and you will notice that they are not constrained by the terminology that you would typically expect to see from a bank.

We have very clear plans behind each of these strategic objectives. Firstly, as you will see on this slide, we will grow our balance sheet in the right areas in a margin accretive way. Secondly, to support this growth we will enhance our customer experience and drive digital adoption amongst our customer base. Thirdly, we will become highly efficient through realising the integration synergies, as well as digitising and simplifying the business. And finally, we will maintain our strong risk management approach and manage our capital efficiently, which I know is an important topic for all of us.

We are therefore announcing the financial targets that we published because we are confident that these are achievable, despite the industry pressures. And in terms of growth, we're looking to reshape the mix of our balance sheet over the medium term to 75 percent mortgages, 15 percent in business and 10 percent in personal unsecured, which will be margin accretive. At the same time, we are focussed on leveraging the combination of our leading technology, the Virgin brand, and our expanded national distribution reach to drive a significant increase in our current account and savings relationship deposits, which again will be margin beneficial.

As I mentioned also earlier, we are targeting a further £50 million upgrade to our net cost savings estimate, whereby we now expect to deliver around £200 million in net savings. And this in turn means a cost base of less than £780 million in 2022 and a cost to income ratio in the mid-40s. All of this will be underpinned as you can see by a Common Equity Tier 1 capital ratio of around 13 percent. And the delivery of these targets will result in a significantly more profitable and efficient business, which in turn will deliver increased shareholder returns. We expect to be delivering a statutory return on tangible equity in excess of 12 percent by full year 2022 and generating in excess of 100 basis points of Core Equity Tier 1 capital per annum. And that supports a progressive and sustainable ordinary dividend strategy and achieving a pay-out ratio of 50 percent over time.

In short, this is a strategy that delivers both strategically and financially in a three-year horizon that, as we all know, has the backdrop of a challenging economic environment. The targets we have set out are delivered through activity that we control, and we have therefore confidence in delivering. We have not assumed, importantly, any easing in the environment over the plan period, but if this does happen there will of course be upside to the performance. This sets us up for a strong momentum coming out of 2022, with a disruptive national franchise, having successfully completed the integration of Virgin Money and that momentum we'll see is continuing to grow our customer base under the strategy we set out here today and delivering increasingly attractive shareholder returns.

Ian will take you through the financial targets in more detail in his section and the customer outcomes of our strategy will then be covered in the brand and divisional presentations. So, the targets are a composite of three different but complementary business plans all delivered with a consistent brand and customer experience model. You will hear from the heads of these areas today, so I won't steal their thunder too much now, but suffice to say the structure and the empowerment of our three divisions creates an end-to-end focus on delivering a world class experience for our customers.

Our Business division will deliver growth by simply expanding our strong existing sectoral and relationship management model to a national scale. The Personal division will leverage the Virgin Money brand and our digital capability in combination with that, to create new relationship propositions for growth with both the existing customer base and our new customers, and our Mortgage division will be disciplined in maintaining market share, but delivered more efficiently through digitising the customer experience, maximising the broader customer relationship and optimising for value.

In conclusion, I believe that we have a strategy and a competitive advantage that positions us well for success in a complex environment, both from an economic perspective but also from a competition perspective and you'll hear more in each of the individual presentations on that, and I will return to the theme at the end of the day.

Thank you, I will complete there and let me now hand you over to our Brand and Marketing director Helen Page, who will talk you through the exciting opportunities we see ahead with the Virgin Money brand. Thank you.

### **Helen Page, CYBG**

Thank you, David and good morning, everyone. I'm delighted to be here today to share with you our exciting plans for the Virgin Money brand. The film David shared with you will have given you a flavour of our ambition for the brand and a hint of what the future will look like for our customers. Whilst both banks were strong before, together we are perfectly placed to disrupt the status quo and offer U.K. consumers a real alternative. We now have a full product set, a significant customer base, and true national coverage, through both the physical locations we serve and the strength and depth of our digital offering. Now, by rebranding all of our existing brands to Virgin Money, we will bring efficiency, focus, and wider customer appeal and at the same time, the new bigger, bolder Virgin Money offering is built around a relationship account platform for both our personal and business customers. Now, all of this combines to create a new and more powerful customer proposition underpinned, of course, by our iconic and globally recognised brand.

The story I'm about to tell you may be one you think you've heard before, but the reality is that only now are all the elements in place to allow us to fully leverage the opportunity in the Virgin Money brand. And as a result of the combination, we are able to deploy the complementary strands of CYBG and Virgin Money to deliver a fully comprehensive relationship-led banking service for both personal and business customers across the U.K.

At the same time, we are developing a close working relationship with the Virgin Group to make sure we take full advantage of the halo effects the Virgin brand offers and ensure we are deeply connected to the global network of Virgin companies. Now, this not only allows us to share best practice, but will ensure we can build experiences for customers that no other bank can offer. And more specifically, what is available to us today is fundamentally more substantial than what Virgin Money had previously. We're not a start-up, but rather have instant scale with a captive audience of 6.4 million customers and

the full product set. We have an established, digitally enabled current account proposition and a full-service business bank, which have never been available under the Virgin brand before, meaning we can now truly own that customer relationship.

We also can now break out of CYBG's traditional heartlands and create a true national competitor of scale. And the close work we have underway with the newly established Virgin Group loyalty company is expected to create an enhanced rewards programme, never available before. Now, this will enable us to build both commercial and brand partnerships and access an ever-growing base of Virgin consumers. So, in short, the new Virgin Money is a fundamentally stronger, scalable and market ready proposition.

The power of the Virgin brand really is amplified by the range of services it is associated with. Not only does this breadth of coverage boost awareness and consideration, but as I mentioned, it opens up a world of opportunity on the loyalty front. It also creates access to an extensive spread of experience and capability from which to gain inspiration.

Now, earlier this year, I spent some valuable time immersing myself in a number of the Virgin companies from Hotels, Atlantic and Voyages to the more courageous such as Orbit and Galactic. Now, the strength and diversity of ideas and experience I was able to derive from that time has truly inspired the brand proposition we are building for relaunch. And this leveraging of each other's strengths is something that the Virgin Group is really keen to promote. No other bank lives within a family of highly trusted and recognizable brands, and we will take full advantage of this as we build and deliver a truly differentiated consumer offering through our relationship propositions.

So, is any of this relevant in creating commercial value? Well, the answer is yes, based on both our experience and the learnings from across the wider Virgin Group. And from a Virgin Money perspective, we see brand -- we see the brand display a level of product consideration that is double that for Clydesdale and Yorkshire Bank, and comparable with the likes of TSB and First Direct, despite significantly less marketing spend than both of those brands. In recent years, we've also seen stronger growth in both mortgages and credit cards, while at the same time delivering a digital cost per acquisition that compares really favourably with our peers, clearly demonstrating the power of the brand to drive efficient scale.

Now, this phenomenon is repeated across the wider set of Virgin companies, where real examples and primary customer insight shows that the Virgin brand scales fast and boosts market share, while at the same time creating loyal communities and passionate advocates. Virgin Hotels set out to reinvent the hotel experience in Chicago by removing some of the pain points guests experience at other hotels. And after winning a Condé Nast Traveller award in the first year, Virgin Hotels launched a second property in San Francisco and will open a further eight sites including a location in Edinburgh over the next two years. When Virgin Voyages opened their booking system in February, the first ship wasn't even finished, and yet within four months they had taken bookings from every state in the United States with another four boats now on order.

On the acquisition side, independent research has shown that rebranding or relaunching a business as Virgin can immediately make customers up to 42 percent more likely to choose that business over competitors. And in terms of customer loyalty, those with two or more Virgin relationships are over 50 percent more likely to show a preference for the Virgin brand overall. Now, one final comment I'd make is to mention that Virgin companies typically display superior colleague retention, all directly related to the equity within the Virgin brand.

The Virgin brand is known to attract an adventurous, optimistic and more affluent audience, in short, a prime high-quality customer base already warm to the Virgin brand. For Virgin Money, this presents a tremendous opportunity to access a superior customer base that Clydesdale, Yorkshire, and the B brands were just not as well positioned to penetrate. Research has clearly demonstrated this point with a large proportion, 44 percent of ABC1 adults, showing strong affection for the brand, a population which naturally exhibits a higher household income and enjoy a much more premium lifestyle. Virgin customers are adventurous, inquisitive, and loyal to the brands that they love. They are also likely to prioritise convenience over price, making them a strong audience for both personal and business relationship banking services. Importantly, this is an audience with whom CYBG already has a connection. Around 20 percent of our active personal current account base are already transacting

with Virgin brands, spending almost 600 million during 2018 and holding a relationship with on average 2.5 Virgin companies. Now, this is a solid foundation for us to build on, and of course we already have three million loyal Virgin Money customers, who have never had the opportunity to have a full banking relationship before. With the launch of a best in class Virgin Money current account, we will for the first time have the opportunity to deepen those relationships.

Looking more specifically at the Virgin Money brand, customers and prospects alike are positive about the future across both our Personal and Business bases. As the divisional heads will tell you later, there is typically a significant crossover between our Personal and Business customer base. So, it's no surprise we see similar feedback from both segments. On the Personal side, customers perceive the brand to be optimistic, inspiring, and future-focussed, and on the Business side, prospective customers are firm in their belief that the combination will create a true alternative to the status quo. Verbatim Business customer feedback also shows the brand as being viewed as modern and innovative, and in both cases, the Virgin Money brand creates a more dynamic impression than that has been associated with our heritage brands, and therefore offers a clear opportunity to extend our consideration and our reach.

To make the most of our opportunity, we are embracing the Virgin way. This means taking a purpose led approach, as David mentioned, to our sector. Now, this is based on a deep honest understanding of our role in customers lives and our reason for being here as a bank. Our purpose was developed in consultation with two and a half thousand colleagues across both heritages, helping unite our team around a common cause and at its core is an ambition to break that parent-child relationship consumers typically have with their bank and demystify money to remove some of the fear and angst that surrounds it.

Essentially, our aim is to make banking a happier experience, so that people feel confident and empowered to manage their finances. Now, purpose as a focal point for organisational decision making and a driver for smart disruption is a long established approach for Virgin businesses and one on which the success of the Virgin Group is founded. Evidence confirms that purpose-led brands drive deeper customer and colleague connections, as demonstrated through enhanced customer affinity, increased brand trust, and underpinned by a strong corporate culture. In addition, a well embedded purpose has also been shown to support stronger shareholder outcomes too. A 2016 Harvard Business Review report on purpose concludes "those companies able to harness the power of purpose to drive performance and profitability enjoy a distinct competitive advantage". So, our purpose will be fundamental to how we deliver on our ambition and strategy.

Our purpose and personality will come to life through a unique proposition that combines brilliant banking, with rewards for leading a life more Virgin. To deliver brilliant banking we will combine a full suite of good value products with fast frictionless servicing to deliver a seamless banking experience. Our people will be motivated by a common purpose, empathetic, energetic, and empowered to solve customer's problems.

Now, in rewarding customers for leading a life more Virgin we can make them feel happier by doing good and living well. The Virgin Money Giving platform is unique for a U.K. bank, and our combined charity offering now incorporates both a full banking service and a core fundraising platform and because Virgin Money Giving is not for profit, more money gets to where it's needed. On the rewards side, we will provide unique access to a range of inspiring experiences and quality products that only Virgin can offer in financial services. In short, our proposition will combine banking and rewards in a way that only Virgin can.

Now with that in mind, you should all have found a red bag on your chair intended to give you your very own Virgin experience. There are some real and valuable treats in the bag, and they're intended to give you a taste of what it means to be part of the Virgin family. Now, these aren't vouchers that fall out of newspapers, they are real, so, please do use them or give them away to family or friends and if you don't like the experience you've got, there is a coffee break or lunch, you can find a friend and change.

So, with that in mind, our unique proposition will be delivered through an unmistakably Virgin experience that draws customers in and surprises and delights once they are engaged, from our digital offering to the spaces we create and the people we employ, we will enthusiastically embrace the Virgin way and use this to build on the solid foundations already in place. The evolution of our digital experience will

build from our successful and scalable B platform, a highly rated app and over 250,000 of our most satisfied customers, while learning from best practice across the group to invest the Virgin personality in every customer interaction. We already have a unique and differentiated physical experience through B Works in Manchester and the Virgin Money lounges. We will look to learn from this live experience, often from initiatives in Virgin Hotels, Voyages, and Atlantic to reimagine the role of the high street and create an unexpected experience for a bank.

And we will focus on our people to help bring all of us together, linking the digital and the physical experience with a human touch. Success will ultimately be measured by our performance in the CMA customer service quality rankings, where we are targeting a top three position for both personal and business customers by the end of 2022.

In all of this, it's important that we signal to customers that there is a new Virgin Money - bigger, bolder, and better than the one they know today. The most powerful symbol of this will be through the introduction of a bold new identity that will be applied across the whole of our business. Now, our new logo makes the most of our name, focusing on the thing people really care about - not banks or building societies, but their money. The new marque is modern, flexible, and is proudly different to traditional banks.

Now, at the same time, it's key that the rebrand feels like an upgrade for existing Clydesdale and Yorkshire Bank customers, both through the look and the feel and in the way that we execute it. We will take a phased approach to rebranding to minimise both the systems risk and the level of disruption for our customers. The rebrand will begin with the renaming of our corporate entity to Virgin Money U.K. PLC. Now, this is a symbolic change for colleagues and will ensure alignment on purpose and values at every level of our business.

Towards the end of the year, customers will begin to experience the branding change, with the B platform rebranded to Virgin Money. All aspects of B will change including the mobile app, the contact centre and even the B stores. And it's at this point that we will be able to offer a new fully digitally enabled current account under the Virgin Money brand. Fergus will talk to you in more detail about how we will use this to grow, deepen, and extend those personal relationships.

In 2020, we will launch a new Virgin Money Business current account, and we will move through the following two years and ensure our total customer base across Personal and Business are kept well informed of our rebrand approach, ensuring we keep engagement high and attrition low. For existing customers, our focus will be to make the transition as smooth as possible; and for new customers, our objective is to announce the new brand with impact, building momentum quickly.

We will be ambitious about our launch, we will mix bold statements with high impact advertising, and embrace new media channels. Our activity will harness the excitement and inspiration of the Virgin and the Virgin Money brands while emphasizing the full range of personal and business banking services on offer, underpinned by the substance and experience of the Clydesdale and Yorkshire Bank brands. As proven by other Virgin brands, we expect to scale quickly and boost marketing efficiency, and we will look to leverage this to accelerate awareness and ultimately consideration for Virgin Money.

To this end, our relaunch and rebrand could hardly be timed better, coming off the back of the Virgin brand's 50th anniversary and coinciding with real global momentum for the Virgin brands. To name just a few, the launch and growth of the Virgin Group loyalty company, the merger of Flybe and Virgin Atlantic and the growth in global brands, such as Virgin Hotels and Virgin Voyages, and all of this provides huge brand halo effects, and gives additional credibility as an innovative and disruptive brand.

So, in summary, we're all incredibly excited about the opportunity we now have to truly leverage the Virgin Money brand and it will be critical in supporting the strategies of all three divisions. Now, with that, I would like to hand you over to Gavin Opperman, the first of our divisional speakers.

**Gavin Opperman, CYBG**

Thank you Helen, and good morning, everybody. I am truly delighted and excited to be here today to present the first of the three divisional updates. Fergus will follow with an update on Personal followed by Hugh on Mortgages. As David mentioned, each of us will focus on the customer strategies and Ian will walk us later through what this means from a financial perspective.

When you listen to us speak today about our own areas, it is important to note that our successes and ambitions are centred around a similar customer aspiration, with all our customers served by a single efficient and inter-connected distribution model.

I'm going to share with you how our business has grown by focussing on the areas we are renowned for by our loyal customers, and the exciting opportunities that are available for growth in the future by executing a straightforward strategy - doing what we're doing well today, but doing it on a national level. As part of this, I'm really excited about the launch of the Virgin Money brand, which we will bring to Business. This will provide a platform needed to realise our ambition, taking us to a different level.

Delivering growth in an ever-evolving and changing market brings about its own challenges. To put a personal perspective on this, I joined CYBG a little over three and a half years ago at a time when our business was struggling for growth and margins were under pressure. This was followed by the rapidly changing market conditions including the challenges from the likes of Brexit, ring-fencing, and a muted macroeconomic environment coupled by changing customer preferences and the ever-increasing competitive pressures. Despite this, I'm proud to say that we have successfully competed head on with the larger banks, resulting in a 20 percent core SME lending growth, from the £6 billion to £7.2 billion over the last three years. Our asset growth has been circa 2 percent above that of the market. Interest margins have improved in the past two years against a market that has remained flat.

I can hear you asking the question possibly a little bit sceptically - how did you achieve this? Our success can be linked to three areas that we deliberately singled out and chose to capitalise on. The first of these was our strong, unique customer focus and our Business relationships, which we have available to all our Business customers through our different distribution models. These distribution models are tailored to a customer's business size and their preference of contact. Underpinning this, the improvements we have made to enhance our digital capabilities.

Secondly, our understanding and market expertise, which is supported by sector specialisms, a core strength that competitors have not managed to be able to replicate. We operate standalone national teams – there's no regional matrix management, and these teams all originate and operate their customers with an end-to-end control of the outcomes and the risks.

We recruited specific expertise in our business to help us grow in the selected sectors that are attractive to customers and that are profitable to the bank. This was achieved with a good understanding of the risk, an understanding to able to build a well-diversified source of income streams across our lending and fee-based services. In the recent customer interviews, the level of expertise in the sectors stood out, which was acknowledged as a key differentiator for our business.

The third area is the recognition that customers are willing to put expertise ahead of costs. To bring this to life, we believe that our bank has interest margins above that of the big competitor banks. This has been achieved at the same level of risk across both small and medium business. The market is continuing to evolve, and we acknowledge that the challenges that we see are real, but the opportunities ahead of us, are that of growth.

Today, we are a highly competitive regional participant in the business market, and we are recognised as a full-service bank with a long-established heritage spanning over 175 years. Focusing on areas of expertise, we have managed to credibly compete with the much bigger banks and as evidenced through our success of our growth. Our business current account market share is in excess of 10 percent in our heartlands, circa 3.5 percent nationally, giving us the required platform to be able to expand nationally. Circa 90 percent of our 200,000 business customers have their current accounts with us. We have a comprehensive full-range product offering for business customers, from sole traders through to the corporates, which is a key differentiator for when we have compared to that of challenger banks and the new entrants in the market.

A mature embedded approach to our risk management, which has delivered a balanced and stable portfolio. Market experience has shown us where to focus our resources in developing a truly different business, not only which we have today but also one which we could capitalise on for the future. Equally as important, this has informed our proactive decisions where to choose to participate for reasons of complexity or high risk. Our limiting factors, certainly, have not been ambition, but more the ability to take the regional brands of Clydesdale Bank and Yorkshire Bank outside their natural geographies.

With our strong sectoral relationships and expertise we can evidence a strong balance sheet growth over the recent years. This has been achieved through our well-developed customer relationships and a focus on building a diversified balance sheet without taking undue risk. As an example, we have a longstanding heritage and an affinity in the agricultural sector, which provides a low risk profile benefiting our risk-weighted assets. We caution against exposures in certain sectors, such as that of commercial real estate and construction. We consciously focus on sectors we believe are more favourable and in which we have specialism.

In our sectors we offer a wide range of products and services to our customers, which means we are not only diversified in the sectors, but we also take an approach of diversification in our products and our income mix. The broader group benefits from the surplus funding position in business, which means we are able to play a key role in supporting and contributing to the wider group activities. This stable funding is made available to us through one - market leading business current accounts. Secondly - our renewed liabilities proposition in the commercial and corporate markets, and thirdly – a growing customer base.

We offer a wide range of products and capabilities, which allow us to support customers throughout events in their business and personal lifecycle. This includes day to day banking services, cash management, asset purchase, scaling up for growth and business acquisitions. At Clydesdale and Yorkshire Bank, we also offer big bank products to our mid-sized commercial and corporate customers, including trade finance, invoice and asset finance, leverage and acquisition finance, as well as simple FX and hedging capability. This product from a customer perspective is unique and different from that which is in the market. From a bank perspective, it is also a key contributor to other income. Our assets and liabilities are originated through a range of channels, which are local, centrally, and digital. The expansion of this capability is a key component of our future intent.

Our service model is designed to meet customer's needs and is founded on the belief that relationships drive trust and long-term partnerships. All our business customers, from the smallest to the largest relationship are relationship managed. This efficient relationship model is underpinned and supported by a range of digital and spatial capabilities that customers can utilise. We recently launched our new business internet banking platform on the group's iB infrastructure and developed a complementary range of additional tools. We lead the market with a scalable small business distribution platform, which has centralised relationship teams and now services circa 90 per cent of our business customers.

For larger businesses, our relationship teams are based regionally. They are active regional participants that understand the local markets. Where customers have more complex needs in chosen sectors, we offer specialist relationship managers to provide guidance, expertise and support with qualified opinions. Our relationship approach not only satisfies our customer business needs but opens up and provides access to the widest range of bank services and products available, which meets their personal and mortgage requirements. Our relationship managers work closely with our Personal and Mortgage colleagues, ensuring that we offer the best possible solutions.

So, what sets us apart? Why are we different from our competitors? It is not only the expertise in the selected sectors, or our brilliant relationship model, but our ability to create customer solutions using a wide range of products and capabilities. We have a highly evolved and tested business model which we are confident is stable and robust enough to be able to support our ambition to grow on a national basis.

I'd like to share with you a short video, which features some of our business customers.

[video plays]

**Gavin Opperman**

When I listen to our customers, I'm just incredibly proud to work with this bank, and I believe that this video helps us to bring our business to life and provide a brief insight to the value of the relationships, that our relationship model brings to our customers.

We have a clear ambition and a strategy. We have been deliberate and dynamic in our thinking, looking for areas we can match customers' needs and extend our capabilities and broaden our offering. Our ambition is deliberately bold - to help business owners realise their potential and achieve their dreams. To deliver this, we have a simple and straightforward strategy. Take our regional strengths, proven relationship model, and sector specialisms to the national stage. Secondly, launch the Virgin Money business into the market in 2020 and make a splash, not a mere ripple. With a new brand comes an expectation. To satisfy this expectation, we will set a new bar for customer experience, investing in our services and digital capabilities, creating a customer experience that sets us apart from the rest.

We want to expand our relationship model nationally. What is the size of this opportunity? How much bigger is the national stage? The split of our current account base of customer base is 77 percent in the heartlands and 23 percent outside. This 23 percent is only 1 percent of the U.K. businesses based outside of our heartlands. The maths is simple. This is a huge addressable market.

The business banking market is evolving more than ever. There's a range of new market participants offering slick digital services. The problem however, is that their product offerings are limited; as the market matures, the true differentiator will only come through customer experience and the ability to offer products and services that cover the whole lifecycle of the business. The model of many participants in the market is to have a very thin service layer and rely on a highly robust digital capability.

Whilst this is happening, the larger banks have balance sheets that require scale deployment to retain their growth. This is making the SME and small corporate segment a less efficient place for them to operate. They recognise the opportunity but continue to withdraw support. Our model fits nicely across both parts of the market. Our right to win is being flexible and efficient enough to meet the challenges of small business customers requiring a wide range of digital support capabilities and access to relationship managers, whilst capitalising on the opportunities for the maturing businesses through the local sector experts, while the larger banks are focused on the corporate led growth.

At Virgin Money, we are primed to benefit from the step up towards accessing more companies in the wider geographical space and become a truly national force. Virgin Money has existing locations in these geographies, where we intend to expand presence. We will leverage these as we open up our access in the untapped markets. Having some pre-existing customer-focussed teams in these locations is an advantage in generating momentum. This expansion will commence in 2020, followed by the extension in our sector and product specialism in 2021.

Turning to the brand, I want to deliberately emphasise there is no business offering under the current Virgin Money brand. When we launch Virgin Money for Business in 2020, it will be the launch of something completely new. With over 175 years of experience, coupled with the innovative entrepreneurial spirit of a customer champion brand, this will be a unique business in the Business marketplace.

The Virgin brand promises something different, and our ambition for Business is to redraw the benchmark, setting standards for products and services and innovation and competition that will be struggled to be matched. Our ambition is strongly driven by the purpose: making people happier about money. This market has been underserved for far too long. There are too many standardised products and services which are narrow offerings from the new players and a lack of focus from the big five. Virgin Money for Business will be different from other banks, offering other financial and non-financial services, a unique relationship model that services all our business customers, at a national, on a physical coverage, supported by our multi-channel servicing and our digital capabilities with this wide range of products. The brand has been tested and will work for both our existing customers and our new customers who are looking for a bank that is not just a bank, but a financial institution who is in business.

We are stepping out of just being a business bank. We are a business. We are a business that does business with businesses.

By enhancing the customer experience, we will offer a standard of services, which is tangibly and measurably better, something which customers rightfully expect from the Virgin brand. We will strengthen and develop our customer interfaces, enabling the Virgin Money brand at launch to offer something credibly different. Our commitment is to simplify, digitise, and enhance the customer experience of today by offering a full digital experience by 2020, followed by automated credit decisioning in 2021. We have already launched a refreshed Business banking digital capability earlier this year, with a lot more to come. Fraser will speak more about this later in the morning.

We are bringing together our ambition and expertise as we design and build the Business experience for tomorrow. Through establishing a Business lab capability, we will rapidly test and learn on new initiatives. This will help us sharpen and increase our focus on our customer experience rather than just being transactional. This supports our approach to deliver a full suite of products and services across all three of our divisions - that of Mortgages, Personal, and Business. The combination of our digital capabilities with our unwavering belief in our people, which is at the heart of our engagement, offers the best of both worlds.

To help us accelerate our capability, innovation, and reach we will develop and continually iterate our fintech partnering model. We would have liked to have won the funding from the Capability and Innovation fund that was made available by the Banking Competition Remedies. This however, hasn't detracted us from our ambition to lift the bar across the business, focusing on improving core customer facing capabilities.

As I've said, our strategy is very simple and it will support us to deliver our divisional targets, expanding what we will do well today on a national scale with a new brand and a superior customer experience. With our disciplined focus in underwriting and maintaining our existing risk approach, we are aiming to deliver on pioneering growth over the medium term, as well as continue to grow other income streams. By extending our reach nationally, there is a much bigger potential for us to continue to grow liabilities contributing to the group's funding and returns.

The RBS switching scheme gets us off to a good start and will support our ambition to increase our business current account market share, which is circa, at the moment, 3.5 percent to that of circa 5 percent. More importantly than ever, we are targeting our annual growth in our business relationships and balances. This coupled with our relationship management model, digital onboarding, and plans of expansion nationally under the Virgin brand is a compelling mix that I look forward to bringing to the market.

By leveraging these new relationships, exercising what we know we are brilliant at, I am very confident in our ability to deliver our medium-term ambitions. We will stay true to our service aspirations, delighting both customers and colleagues, and target to be in the top three in the CMA business service quality rankings by 2022. Digitising our business to simplify and speed up the customer experience will be at the core of what we do, making things super straightforward and efficient to help contribute to the bank's overall cost targets.

We have clearly defined a three-year plan to deliver on. An ambitious extension of our addressable market, which starts in 2020 by leveraging the physical presence that Virgin Money has established, while investing in our new capabilities. A high impact brand launch in 2020, which brings with it new products and capabilities. This will respect the past but will promise a better future. A multi-year strategy building on core capabilities and responding to changing customer needs, building the distinctiveness that customers expect.

We are fuelled by ambition and confident the market is ready to respond to a different, yet compelling business proposition that we bring to the market. The team has delivered. It has delivered over a number of years. And it has established a robust scalable platform which is ready for growth. Thank you. I'll hand over to Fergus Murphy to take you through the Personal division.

**Fergus Murphy, CYBG**

Okay. Thank you, Gavin. Good morning, everyone, very happy to be here. It's a pleasure, today, to talk to you and to share our ambition, targets and roadmap for our Personal division. The combination of Virgin Money and Clydesdale and Yorkshire Bank brings together two highly complementary Personal businesses; a strong current account-based deposit book and a growing personal loans business, with a best in class credit card book and a highly efficient digital savings business.

We have an excellent personal banking portfolio, built around enduring primary relationships that provide a robust funding engine for the group. Our plan is to strengthen our proposition under the Virgin Money brand, enabling us to build on the proven model nationally, thereby driving growth. Our ambition is to help our customers live and bank in a more rewarding way.

We'll achieve this by focussing on three strategic themes: transforming our proposition, enhancing the customer experience, and deepening relationships with customers and our partners. And I am going to tell you how we're going to do that over the next 10 minutes or so.

We are fully aware, as are you, that we are operating in a challenging and changing market environment. You'll recognise all the comments on the slide behind me, and the nature of the market that we operate in. Unsecured markets are price-driven, largely through aggregation and remain highly competitive. Competition for deposits remains intense with many players offering cash incentives to attract new current account customers. But to counter and overcome these challenges, we now have the scale and the capabilities to compete much more effectively, extending existing relationships and winning new ones across both sides of our balance sheet.

We are starting from a position of strength. Our businesses have scale. Our retail deposit book is now in excess of £51 billion. £31 billion drawn from the heritage Virgin Money Business, weighted heavily to savings, and £20 billion of heritage Clydesdale and Yorkshire Bank balances, more heavily comprised of current accounts. These balances represent the funding base for much of our group lending. We have a long and successful track record of growing our deposit business. Our key challenge now is changing the mix of deposits.

We have an excellent credit card book, a prime book with a track record of consistent growth while maintaining asset quality, evidenced by the low arrears rate of 1.2 percent. Our personal loans business is smaller by comparison but is growing strongly also and offers a meaningful opportunity for growth as we relaunch the offering under the Virgin Money brand. You will recall that in the past Virgin Money did not have a personal loan offering. And we now serve 6 million customers, many of whom only have a single or very limited product relationship with us, representing a real opportunity for us as we unify a full product range under the Virgin Money brand and build relationships with new and existing customers.

We also have a meaningful benefit from our enlarged branch network and the enhanced digital distribution and service capability we now have. The single biggest attribute we can leverage is the increased level of awareness and consideration our existing and target customers have for the Virgin brand, as Helen told us earlier. As we move from four brands to the single Virgin Money brand, we expect to see significant opportunities to attract and engage target customer segments the Clydesdale Yorkshire and B brands struggled to reach - the target customer segments we really want to attract. We know these customers have high expectations and demands of a Virgin branded experience and we have those same demands of ourselves, and that's why enhancing our service experience is so central to our strategy.

This slide really helps to bring this customer opportunity to life. The bar chart behind me illustrates how we think about our customer segmentation. The Virgin Money Business has added 1.6 million customers to the existing 600,000 Clydesdale and Yorkshire Bank customers we categorise as Established Affluent and Journey to Affluence. These are customers with higher household income and investable assets who we have typically struggled to reach under our heritage brands, in part due to their regional focus. Established Affluent and Journey to Affluent customers now represent 35 percent of our personal customer mix, which is higher than the U.K. market mix of 31 percent.

We expect to over index in the acquisition of customers in these cohorts, building share over time. These existing Virgin Money customers are also customers who, to date, haven't been offered a strong current account proposition because Virgin Money didn't have one, so a fantastic opportunity for us here. Our research tells us that consumers in these target segments are more receptive to the Virgin brand than average, which gives us confidence there is a big opportunity to attract increasing numbers to our business.

Whilst our approach to distribution will be digitally led, our branch network will continue to play an important role, not least in introducing new customers to our digital offering and educating many of our existing customers in the benefits of managing their relationship with us digitally. As you can see from the right-hand side of the slide, our new branch footprint much more closely aligns to the concentration of our target Established Affluent and Journey to Affluence customers. We now have 29 branches south of Birmingham, where previously we had just four.

I've talked about the assets we currently have. But what is our future ambition? To put it simply, we want to help customers and live and bank in a more rewarding way. We'll do this by focussing our efforts on three key themes. First, transforming the customer proposition and ensuring there is a clear value exchange between us and our customers. Second, enhancing the service experience and living up to the expectations our customers have of the Virgin brand. And in doing so, we will win the right to deepen relationships with our customers. We also want to maximise the value and potential that exists through deeper relationships with a select group of partners to support the delivery of our strategic agenda.

We want to transform our money management proposition. Our research and testing demonstrates that consumers want something different, personal, relevant, and rewarding. We are still working on the final proposition, and we will introduce it in a phased way over the next three years. We will disrupt rewards, loyalty and customer value, not simply evolve from the thin veneer of offers that proliferate in the market today, relying heavily on short-term cash incentives.

We expect to quickly build from our highly successful Virgin Atlantic Airways flying miles proposition, as well as an enhanced in-app functionality and we will test and learn with our customers as we go through this. We see our proposition delivering across three core pillars. First, a unique rewards program that draws from the strength of the consumer offer across Virgin branded companies, creating a customer experience others can't replicate. This builds on the existing Virgin offers that customers can already access. Second, a mobile interface that is simple to use and leverages our open banking capabilities and API technology and platform to enable customers to have an intuitive view of their complete financial life. Third, intelligent wealth optimization tools that bring this all together and build on our existing B current account smart budgeting and savings capabilities.

It's a proposition that supports the current account and linked savings balance growth that we are highlighting in our plan, improving our cost of funds outlook. And this will be unique to the U.K. market. Others do not have the same consumer brand strength or potential partnership opportunities to make this compelling and enduring. Finally, in addition to this new proposition, we have a near term pipeline of enhancements across the breadth of the product portfolio that will deliver continuous improvements.

Our second strategic theme is how we will enhance our customer's experience. We are embracing the digital revolution and how consumers research, purchase and engage in all aspects of their lives. In Personal, we have clear plans to improve our digital acquisition and service and capabilities, drive digital adoption, and consequently lower our costs to serve. Our network remains an important part of our distribution and servicing model, but its role in the future will be directed towards educating and enabling customers to move to digital management and the provision of higher value advisory services, which means the format and also the footprint of our network will need to evolve. Our new B Store in Manchester, that will soon become a Virgin Money Store is a great example of how we are evolving our offering. This is now a vibrant go-to destination for Personal and Business customers for digital support, education, and networking.

Our contact centres are primarily used by our customers for, in the moment, simple service enquiries. Today, we execute 14 million transaction transactions per year across the combined contact centre estate; 4 million of which are already self-serve. We are continuing to invest in technologies, such as voice assistance and machine learning to facilitate quick and efficient responses to basic and simple

customer queries, and ensure our people are there to resolve and support our customers with their complex issues at the first point of contact, getting it right first time.

And we are passionate about deepening our relationship with customers. To give you one example of the scale of the opportunity we have available to us, we have 1.3 million active Clydesdale and Yorkshire current account customers and 1.4 million Virgin Money credit card customers, with minimal crossover between those customer cohorts.

We will transform our ability to engage these distinct customer groups by integrating the digital servicing of the accounts into a single unified mobile app. Creating quick and simple account opening journeys for the full range of products is going to be critical to our success in deepening relationships. We already have great examples of this including the savings account opening journey for current account customers, and our new personal loan journey.

As well as deepening relationships with customers, we will be working hard to deepen our relationship with a select group of Fintech and other partners. And as most of you know, we have a relationship and a great partnership with Virgin Atlantic that rewards customers with Flying Club Miles. This has been very successful in driving high quality balance growth and customer advocacy. And we have launched a Joint Venture with Salary Finance to offer customers an innovative personal lending proposition, sponsored by their employer, to enable a great value personal loan enabled by salary deducted payments. These are just two examples of our dynamic partnership approach.

I'm keen to share some of our ambitious targets. The Personal division is the engine room of the group's funding base, complemented by the increased ambition in Business that Gavin talked to just a few moments ago. We will grow our current account and linked savings balances at high single digit rates, increasing the share of these balances within the overall mix and reducing our share of the more expensive term funding. This will directly support our target to reduce our overall cost of funds.

Our goal is to achieve high quality growth in current accounts. We are not chasing headline volume growth. We are seeking to attract customers in our target segments who have above average savings. As a result, we forecast our share of the standard current account market will grow from the current level of under 2.5 percent to a level of around 3.5 percent in the medium term. We are targeting above market levels of growth in unsecured lending with this segment representing up to 10 percent of our overall loan book in the medium term, up from our current 6 percent share as we grow what is an underweight portfolio for us today, and this will of course support our net interest margin profile.

It is important to note that in achieving this growth we are not changing our risk approach or policies; we will maintain our existing underwriting standards. We are seeking growth through better product penetration among our new, enlarged customer base, as well as launching targeted propositions for new high-quality customers. And we are also targeting a top three CMA ranking for personal current account service quality and an improvement in our already strong Net Promoter Score for our mobile banking app. Increasing digital adoption is a key performance measure too. And here, we are targeting an increase in digital adoption from the current level of around 48 percent to 60 to 65 percent by the end of financial year 2022.

Our transformation program and road map align to our strategic themes and agenda. Clearly, the process of bringing together the two businesses under a single brand requires careful and thoughtful management. Our plans reflect this. There will be no 'big bang' migration, and we will protect and enhance the customer experience through the integration period.

Our first objective is to launch a Virgin Money branded current account, kickstarting our journey to increased current account and linked savings balances. This will take place shortly after the completion of the FSMA part VII exercise at the end of 2019 and will be closely followed by the rebranding of the personal loan offering. Together with the existing Virgin Money credit card, this provides a strong product portfolio to take to market. And our programme will be phased throughout the next three years. This will include periodical enhancements to our core proposition and of course next year we will deliver the capability to offer the full range of our personal products across the combined branch network.

This is an incredibly exciting time for the Personal division. Our strategy to transform the proposition, enhance the service experience, and deepen relationships will enable us to deliver improved customer

and commercial outcomes. We start from a position of strength and whilst we will remain vigilant to the external market dynamics, we are confident in our plans and ability to successfully deliver them. I hope I've given you a sense of our ambition for the division and I look forward to meeting as many of you as possible over the course of the day. I'm now going to hand over to Hugh, our Mortgage director.

### **Hugh Chater, CYBG**

Thank you, Fergus and good morning, everyone. I'm delighted to present our Mortgage strategy to you. Mortgages comprise the largest asset class for the group, and following the Virgin Money acquisition, there are significant opportunities for us to improve the contribution they make, whilst maintaining our market share.

The pressures on margins and returns in the U.K. mortgage market, driven by high street lenders deploying large pools of ring-fenced liquidity, show no signs of abating. This dynamic, combined with the requirement to digitise customer pathways creates the imperative for scale players such as ourselves to differentiate and thereby to ensure sustainable returns.

In bringing the mortgage businesses of CYBG and VM together, we've created a resilient franchise that we plan to nurture for value rather than stress for growth. We have a clear strategy to enhance our core strengths and leverage the brand and deliver improved efficiency. This then, is the basis of our response to the market conditions. So, let me take you through the detail of this strategy.

The mortgage market is experiencing multifaceted change. Some of this stems from wider societal changes such as demographic trends, whilst other changes are driven by factors specific to this asset class. Interventions in taxation have depressed the appetite of amateur buy-to-let landlords, while as mentioned, the consequences of the ring-fencing regulation can be seen in the pricing actions of high street banks as they search for growth. This combination of factors has already impacted the market, leading to subdued activity and spread compression as rates become ever more competitive. All of which means that whole of market lenders require a clear transformation strategy to shift their paradigm.

The U.K. mortgage market has been a late adopter of customer facing technology. The digital and mobile capabilities that are the default channel for millions of customers in accessing their current account or credit card, are not widespread in mainstream mortgage propositions. However, customers are increasingly expecting a digitally based proposition in all aspects of their life. Therefore, as a scale lender Virgin Money needs to deliver a digitally served experience for both our individual consumers and our broker partners. Digital enhancement then is one of the pillars of our mortgage strategy.

The combination of the CYBG and VM mortgage businesses creates a new franchise that benefits from longstanding close relationships with intermediary partners, a low risk portfolio and deep expertise in acquiring, servicing, and retaining customers. CYBG and VM bring different, but complementary competencies, capabilities and specialisms to the merged business. The overlap between the historic businesses in terms of broker coverage and core propositions is narrow. Therefore, the combination provides multiple opportunities to improve value in the new business.

This is a portfolio of high-quality loans originated and managed in both heritages under prudent risk appetites. As such, it generates admirable customer demographics that produce a low risk loan book. It is a balanced and resilient portfolio with no geographical concentrations and outperforms the industry average on asset quality. Our strategy assumes no change to our portfolio risk appetite and therefore a continuation of the strong asset quality within the mortgage book.

Underpinning our strategy is the ambition to simplify mortgages to make consumers lives better. There are many improvements to capture in pursuit of this ambition and we have aligned these against three categories. Firstly, as I've already mentioned, providing an outstanding digital interface is crucial to meet customers' expectations. This ensures we deliver a personal service experience that puts the customer in the driving seat. Rewarding our customers for their loyalty and demonstrating the value of holding additional products with Virgin Money is the second key focus area, particularly given the proportion of mortgage customers acquired via the broker channel. Thirdly, the combination of rebranding and the synergies resulting from operational integration means we have identified specific actions to optimise the financial contribution from the Mortgage business.

We have already started to implement the three pillars of digitising our customer experience. Ensuring the friction-free movement of data between brokers on ourselves is the first deliverable, and key to this is establishing API connectivity with the new sourcing systems and automating basic processes such as Knowing Your Customer. Enhancing the experience for direct customers is the second area of focus. The suite of functionality on the slide represents a crucial proof point in building brand loyalty amongst our mortgage customers. It will provide the technical framework to underpin the memorable and replicable experience that is our ambition. Direct consumers and our colleagues will benefit from these improved systems and digitisation, driving efficiencies and speed of completion. The experience we have gained over the past three years in systems enhancements via the Virgin Money Mortgage Lab, an agile development and deployment environment, gives us great confidence in our ability to deliver the plan.

The mortgage hub will be an extension of the brand loyalty program that Fergus has just spoken about. The combination of Virgin Group assets fronted by the highly trusted brand, deployed into the Virgin Money customer base, comprises a unique and energetic proposition that will disrupt the status quo in mortgages and ensure that we are genuinely differentiated. Our investment rationale is predicated on the opportunity to engage our customers throughout their home ownership, irrespective of the channel of acquisition. Rewarding customers with incremental brand-led value, practical expert advice and straight up access to features and servicing will become the centrepiece of their transformed experience.

We will use the rebranding that Helen has spoken about as a springboard to transform the Mortgage business from its current transactional customer engagement approach to an individually focused, digitally served, memorable and replicable experience. No longer will applying for your mortgage be a source of stress, serviced and controlled by a remote banking entity. As the new Virgin Money we are committed to our business delivering a customer led, frictionless experience that you will happily recommend to your friends and family.

A key message from our conversations and research with brokers is the continuing value they place on our service proposition. Positioning two connected but distinct labels - Virgin Money Expert and Virgin Money Every day - with these intermediary partners, ensures that the proposition is clear and highlights the tailored service guarantee. Virgin Money Expert enables us to extend our range of products to those Virgin Money brokers who historically haven't had access to CYBG's complex case expertise, while Virgin Money Every day reiterates our commitment to the mainstream straight-through processing capability that characterised so much of the legacy Virgin Money mortgage business. At the same time, we will grow the contribution from our proprietary business by increasing its proportion of new business and capturing the integration related synergies.

Our mortgage business is performing well. We have excellent relationships with our intermediary partners, and we are a favoured lender for their brokers. Our direct to consumer channels are delivering more volume and value than ever, with these customers increasingly attracted to applying and servicing over the phone. So, while over the life of the plan we are aiming for a modest shift in the balance between intermediated and direct business, our market share appetite remains stable.

As the slide indicates we plan to maintain the portfolio's scale, preserving the quality of the assets and improving operating efficiency. At the same time, we will deliver a transformed, disruptive customer experience. This will result in a differentiated service proposition for broker partners and sticky, loyalty-based relationships with individual consumers who will hold multiple Virgin Money products because they are happier about their money. The combination of these enhancements will ensure a sustainable level of improved returns from our largest asset class.

As mentioned, we have already started to implement elements of the transformation programme and are progressing with the specification of the later stages. This then, is a realistically ambitious project that is aligned with the group-wide integration programme. It re-uses functionality developed centrally within the group and ensures that the new branding acts as an accelerant to generate value from the investment. Our delivery is aligned to critical external developments, such as new sourcing systems for brokers, as well as being in sync with the group integration program. This allows us to phase the implementation, ensuring that the business benefits from enhancements in each year of the plan. Thank you very much. And I will now hand back to David.

**David Duffy**

I do all the jobs around here.

[laughter]

So, thank you for your attention for that period of time. What we're going to do now is do a half an hour of Q and A, and then we'll take a half an hour for a coffee break and just kind of do a bit of mingling and chatting about some of the topics. So, if I could ask the presenters to just join us on the stage, and then as we have the room and the webcast, we'll start with the room and then we'll go to the webcast.

And I know we've also got Ian sitting in on this session, but I know you will want to try and get to the spreadsheet questions...stop! [laughter] I'd really like to do this session just focused on the strategy, the brand, and the businesses. Any questions you have on that. And then what we will then have is a discussion around the technology, and the finance. And another Q and A session for as long as you'd like to go through all of the financial things, so if that if that works for you, we'd like to try and do it that way.

Okay. So, I guess we can just start if there's any questions we'll go right here in the front and then we'll come back. There's a mic being passed down to you.

**Fahed Kunwar, Redburn**

Hi, its Fahed Kunwar from Redburn. I had a question across, I guess, all three segments if I could? Starting with the Business one, Gavin, could I just get a sense of when you think about the business current account growth the high single digit growth, how many are going to be kind of existing customers and penetrating customers you already have; and how many are going to be kind of trying to attract Virgin Money, using the Virgin Money brand, to get new customers? And also, the RBS kind of scheme as well; how material is that to the high single digit growth that we should be thinking about when we look at that business current account growth? So, that's on the Business side.

Then the Personal side. The main question I really had to Fergus was the personal current account growth has been very difficult. If you look at current account switching for years and years, it's been you know very, very low and in a low rate environment it feels like that's only going to be more and more difficult, so the larger banks have a lot of that. How do you think that you'll get it -- I guess Virgin Money did try to get current accounts, but their funding costs remained persistently high. So, why is it you think that with the kind of enhanced brand you realistically will be able to get those personal current accounts? Is it very much back end loaded or take quite a few years to get there?

And the last question was on Mortgages. When you think about mortgages, you talk about the liquidity in the ring-fenced banks being the issue, but if you look at actual mortgage spreads right now, they've been pretty stable for a long time. It feels like the issue you have is more about the funding costs and the lack of personal current accounts ultimately. How is that going to be addressed and does that, is that really a function of why you think you'll maintain market share in an environment where rates stay low? Won't you keep on losing market share to the larger players who do have that personal current account franchise until you build it? Thank you.

**David Duffy**

Okay. We'll just move to that. If we do questions like that, we'll have one question for each half hour. [laughter] But it'll probably cover some of the questions that others have.

So, I think we'll just go through in the order you took -- and Gavin can cover the Business side. Fergus Personal account legitimacy in terms of the ambition. And maybe Ian and Hugh can switch back and forward between the Mortgage question, if that's okay. So, Gavin?

**Gavin Opperman**

Thank you for that question because that raised directly where our strategy is. A transactional account is absolutely key to our bank. So, the business current account is exactly what we aim at.

That is what we have achieved, while -- that's why, a high percentage we have, quote over 90 percent of our customers, we are the main bank to them. So, BCA is this is the entry point to be able to get the transactional banking. Otherwise, we cannot solution customers. We do not sell product, we solution at a customer level.

To your three questions on that, the one on the RBS remedy scheme in terms of the switching, switching has been slower than what we thought, it will run an 18-month period. We are not at liberty to be able to disclose the numbers the BCA will -- so the BCR will quote the BCA numbers as going forward. While I can give indications, they're positive. The quality of the customers is at the centre of what we are doing. In terms of the --

**David Duffy**

Yeah just on the BCA, that's one we're not quoting. We're saying slower -- it's slower release from RBS, to essentially -- so, we can't comment officially, so don't misinterpret on ours until the BCR comes out, but we like the quality of the assets of ours. Can't comment on the numbers, but it's been a slower release from RBS.

**Gavin Opperman**

From RBS. Thank you, David for qualifying. The second portion to that is in terms of our existing customer base. We will migrate our existing over time as our customers from a CY -- or from a CYBG to a Virgin Money business current account.

And then the new business current account, which is the good question you asked, which will release in Q1 of next year. That business will be different. There is a difference in that. We believe that that's going to be something, which will accelerate, especially more in the small and the micro businesses in terms of really, a real growth in that. In terms of your larger customers and the corporate, possibly less attractive, but they will still be able to utilise it because of the nature of the product that we'll bring to market. Thank you.

**David Duffy**

Fergus?

**Fergus Murphy**

On the current account side, the personal current account side. Absolutely a very commoditised market. Cash incentives, so ripe for disruption. And maybe repeating a little bit what we talked about earlier on, but you know just 21 Virgin companies in the U.K. with over 25 million customers. And as Helen showed in one of her slides, even in our relatively small current account base and book in Clydesdale, a well-formed book, over £600 million being spent a year on Virgin Group company activities by about 400,000 Clydesdale customers.

So, bringing the iconic brand into play, bringing the complementarity between the two books and the two businesses. You know, at 1.4 million credit card customers that we have in Virgin Money that have no current accounts. Bringing that, that stock together, bringing the opportunity in the market and the fact that the market is so commoditised, we can bring something different. I always put it maybe you know in our Aberdeen branch because it's north of here -- a bit north of here -- we'll be able to show activities and content that other banks will not be able to show. And so, I think that bringing all that together, as we bring it together, and as it needs to be brought together skilfully, we can bring that market from being very commoditised now into something a lot more exciting and that's what our growth plans are based on. Obviously, as well, we've got very good technology, very good open banking technology and we already have a strong performing current account business in Clydesdale and Yorkshire.

**David Duffy**

If you look at B just to add one small piece, B you know we haven't talked about in terms of hugely promoting in the market or branding - and there's two and a half billion of deposits, outclassing every single competitor or whatever you would call them in the marketplace. And that is technology based. So, because without the brands - you put the brand that we haven't done on top of that and the technology that's been so successful, I think with all the other items that Fergus mentioned, I think we have reasonable confidence that we'll get there.

**Fergus Murphy**

It's a combination of the current account and the linked saver, and you open up the two at the same time. And I think more and more we and others need to look at that marketplace as a fungible current account and instant access account, because as people manage their money, and as base rates go a little higher, there is more opportunity for people to work the account in a way they should. And so, we like to look at the two together, and in our case, they're opened instantaneously with each other.

**Ian Smith**

That's right, I think that's a critical point that the strategy here is about increasing deposits and low-cost deposits. So, we very much think about it rather than pursue -- a reckless, you know, a sort of singular pursuit of current account numbers, it's the relationship account. So, the one that people pay their salaries into, the one that Gavin's customers use to make all their supplier payments and collect money from customers, as well as then the savings. So, critically, the focus is on delivering lower cost deposits rather than the pursuit solely of PCA numbers. And just a wee correction, Virgin Money didn't have a current account offering, and so, you know, prior to combination with us were unable to pursue that effectively. And, you know, it's our platform deployed across the whole of our business that should support this.

**David Duffy**

Great. Do want to follow up on mortgages both of you, or Hugh?

**Hugh Chater**

Yeah maybe I should start there. Thank you for that. We have very active day-to-day management of the value of both the back book, but also of course new business volumes on mortgages. And as you mentioned, you know, supply and cost of funding is obviously one of the areas that we look at closely within that management. And all I can say really is that we will continue what we've always done, which is to react to the opportunity in front of us and to make very smart decisions.

**David Duffy**

Thank you. Okay, John I think was next, and then we'll come back up behind. John's hand is up. Thanks.

**John Cronin, Goodbody**

Thank you. It's John Cronin from Goodbody. And my first question is broad one. I guess it's on the banks are obviously in the -- facing a challenging period as a sector. It's been very difficult for many years. And look you're, I'm interested in your decision to reposition here, moving away from the concept of banking almost to this customer partnership stroke relationship-driven model or business; and, you know, do you see that as absolutely necessary in the context of the evolution of the industry? And your wider thoughts about that and look how you arrived at that, at that starting point.

And then secondly, just on mortgages particularly, I'm interested in the brand extension point around, moving into expert mortgages as well as every day, and what your particular ambitions are for the Expert brand. Thank you.

**David Duffy**

Okay, do you want to start with mortgages first?

**Hugh Chater**

Thank you, John. So, what we're effectively talking about here is taking a core competency that's existed for a long time within the CYBG business. So, putting that kind of simply it's the ability to underwrite through quite a lot of manual intervention, complex cases which other lenders perhaps don't have the capability to do. Take that competency, give it a specific label and extend it across a wider range of brokers to include a lot of brokers that were historic Virgin Money brokers, but haven't had the opportunity to take advantage of that proposition, because they didn't lend under the old CYBG label.

So, I see it as taking an existing core competency and extending that out across new brokers, rather than developing anything particularly new.

**David Duffy**

Just to clarify John, Hugh and I met with all the lead brokers for a discussion, and their emphasis was very simple. We love what we get from Virgin and the service quality and everything else; don't give up the expertise which you have in the more customised model. Will you be providing both? We think you should, it is your competitive advantage. So, that was the genesis of then a labelling of this as we've just discussed. And then I think on the broader relationship if we've understood it correctly John, Helen will start and then others can jump in.

**Helen Page**

Yeah, it's a great question. The work that we did prior to launching B with consumers and since then, has been very much, you know, told us that customers want a broader relationship with their bank. They want all of their needs looked after in one place. They don't particularly want monoline product relationships, which is where the market started to drive them competitively. And actually, when we built B the reason we linked a savings product to a current account at the very beginning, and why we gave them so much functionality, was dictated by them and what they wanted in terms of managing their finances.

So, from a relationship point of view, you know, what they're consistently telling us and sort of newer, younger, more affluent customers is that "I just want one person to deal with, and I want you to anticipate the needs that I have better, and build the things that I need around that." So, I don't want this, you know, this this frequency of having to go and search things out all of the time unless they're very commodity-led products, so that that's why we've kind of progressed in that way. Gavin, it's worth talking I think about the work that we've done with Business and where you've been with the relationship model?

**Gavin Opperman**

Yeah, I mean, the relationship model -- you have to have the digital capability, be able to support a customer, to be able to transact on a daily basis. That's the ticket to the game. But if you just took quick examples, if you said the farm in Inverness or the tooling business in Birmingham or the hotel in Tower Gateway or something like that, all of those customers need to be solutioned, they need to engage with us. So, then you've got start-ups just sitting in Manchester for example - they need some way to be able to facilitate and we will bring people in, expertise and sectoral support to it and that's why we're very focussed on specific sectors. We don't go outside those sectors, we have our expertise, and it just depends on the scale and the large -- the scale of the customer, the size, and how we'll engage. And then the customer needs to decide how he wishes to engage with them. We have a call centre that's set up, which people can phone in. There are a pool of people that can service customers. And that's our relationship model. So, a lot of fluidness, understanding the customers, supporting them and helping

them to do it, and that's our relationship model. And that's the advantage of the size of this bank, which bigger banks can't do; smaller banks cannot build it because it's simple - it's too expensive to build; and the larger banks in it are looking at the big corporates, which we are not doing, and we are taking those corporate products and making them available to the more commercial businesses, in short.

### **David Duffy**

One marginal contribution, and then we'll come to you. The misunderstanding of the markets and how, is a big bank construct that there are SMEs and they're all over here and then there are personal customers over here. In the small side of SME, it's a venn diagram with a very fat middle, which is where your pharmacy, your small hotel, is on the high street, may live above the property, and has personal products and lives. We want all of that. And the way you solution that, as Gavin says is by providing an integrated technology platform that is seamless with all customers on it and runs across, back and forward and you create all the services in life that they want, which is the advantage of Virgin. Not just banking services, but all the others are available to access at good discounts, that kind of model. We think that's where the market is inevitably going, and we are positioned very well to deliver against that. So, that's the focus on it across all businesses.

Sorry we're going to go over here, and then behind you there will be two afterwards. John if you don't mind passing it down. Yeah, thanks.

### **Tom Rayner, Numis**

Yeah, thank you very much. It's Tom Rayner from Numis. It seems that the two key elements of your strategy are leveraging the Virgin Brand and embracing -- fully embracing digital. Just had three quick questions. What assumptions you're making in terms of customer attrition from those customers who currently quite like being Clydesdale or Yorkshire customers? We saw some on the videos.

What's the risk to becoming so dependent on a brand, which you don't have full control over? and finally, on the digital side, how can a bank of your size hope to sort of match the investment in digital and technology that you're going to see from the bigger, sort of big five competitors? Thank you.

### **David Duffy**

Sure. Maybe if I talk briefly on the digital piece and the comparative investment spend or advantage and Helen can pick up on the brand side. I think two things I would say. This arms race of numbers in the market is disingenuous and mostly disinformation. It is depending on what your legacy systems are or not and depending on the size or complexity of your products, international versus domestic. So, I don't pay much attention to that. What's fundamental is we have spent the money, £350 million, and built what I see as the only platform that is fully integrated with one customer view across the entire business. That -- watch the big banks, they will spend tens of billions trying to achieve that. We already have that.

The second thing is the platform has a micro service layer. It's open API, connectivity for fintech and large tech is already executed, as you were hearing earlier today. So, the question is not what you're spending it's what you have to compete with, what you have in your arsenal that will allow you to be competitive. So, in answer your question in a slightly different way, I'm very comfortable with our competitive ambition regardless of all the statements I see because I know what we have, and I know what they don't have, and I know how we'll win. So, that's kind of the shape I have on that. But maybe then just to the brand associated question. Helen?

### **Helen Page**

Yeah. I mean, in terms of attrition it was obviously the first thing that we looked at when we did the transaction, we were concerned about that. We put in place from the day of the combination a continuous monitoring with customers on both the personal and business side. And then we built bespoke research for both segments to ensure that we were understanding what people's perceptions were about the new brand what the perceptions were ongoing, how we chart that over time. And then obviously you know there's a huge fondness within the within the local communities for the Clydesdale

and Yorkshire Bank brands, we respect that. Our decision very early was to make sure that we were engaging with customers from the very first day, talking to them about why we've done the transaction, what the combination brings them, and why the brand is so positive moving forward.

What we've seen actually, phenomenally, across both segments is a continuous sort of appreciation, if you like, for the Virgin brand. There will always be customers who say I'd prefer to have Clydesdale and Yorkshire Bank remain, but they, you know, in the main we've seen that perception of the Virgin brand continue to increase. And particularly, on the Business side, where I think we were most concerned about the change, we've actually seen now six out of 10 customers are telling us that they think this provides a real alternative to the status quo, as I kind of mentioned in my presentation.

So, I'm really confident we, you know, we're not modelling sort of high levels of attrition. We continue to monitor it and that's been really positive for us. In terms of the, kind of halo effects, if you like, positive and negative of the of the Virgin brand, again, you know, we've looked at brands continually, we've looked at the Virgin Group of brands over a long period of time. They are largely protected by things that happen within the other brands. So, I think we do have, you know, a good level of control over the Virgin Money brand. We can protect it from maybe you know things that -- you know it's respected that Virgin is an innovative and disruptive brand in the main, and that they will start and maybe not continue certain sectors, that's an accepted thing within Virgin. It's largely not impacting other Virgin Group companies, so I'm not worried about that. I think the positive halo effects largely outweigh any negative.

### **David Duffy**

If that covers it hopefully, and we can we can continue to discuss this in the rooms afterwards, but I think there are more questions behind you if you wouldn't mind. Thank you.

### **Ian Gordon, Investec**

Morning, Ian Gordon from Investec. Three quick ones please. Hugh, would you mind just commenting on your appetite within professional buy-to-lets, I think in standalone Virgin days, this was just a concept or a potential pilot.

Secondly, Fergus, would you mind just clarifying where you are in terms of the journey for branch rationalisation or redistribution? I understand your heritage, but clearly you look a little bit overweight in the Western Isles or in Shetland relative to where you're going.

And then finally, Gavin, can you just help me better understand why you've outperformed in terms of balance growth within your segment? When I looked at the chart on I think is page 26, I could hardly see the elements of trade finance within your book. So, does that mean you have a greater domestic focus? I.e. is a bigger proportion of your book those 92 percent of SMEs who have no trading relationship with Europe? And does that provide you with greater resilience going forward as Europe slips further down into the plughole?

### **David Duffy**

Thanks for attempting to lead the witness there, that's great [laughs]. But first let's go through the Hugh question I suppose on professional buy-to-let.

And then we'll work through the others.

### **Hugh Chater**

Yes thanks Ian. So, it is, we do lend into professional buy-to-let landlords at the moment under the, currently under the Virgin Money brand within the group. What we don't do is lending to limited companies, and it's definitely something that we are looking at as we look to bring the two businesses together under one brand, looking at maintaining this kind of support for professional buy-to-let lending.

**David Duffy**

Great. Fergus?

**Fergus Murphy**

So, we're looking at this as many other banks are in a holistic way. And it clearly is a digital first strategy. And within that mobile first. Our branches will be there, as I mentioned during the presentation, to serve higher value, more advisory, more complex. They're very, very important for our future. Over the last couple of years in the Clydesdale Bank, we've brought branch numbers down from over 350 to circa now 217 in a month or two's time. And that includes the over 70 branches that we've inherited or brought in through Virgin Money. So, clearly, we've been bringing our branch footprint down and we'll continue to look at what is the right branch footprint, what is the optimum level. And that will depend on digital take-up, customer preference and expectations - if customers continue, as they are, to require things and want things instantaneously with real time expectations, we will continue to react to that. It is a digital first strategy. Branches - really important and will continue to evolve as we go.

**David Duffy**

Just one quick point on that because -- before we go to Gavin -- cash usage is also another dynamic that serves to accelerate quite strongly - or lack of it. People have stopped using cash, and I think that's going to accelerate the debate around the branch network for businesses as well. So, it's something we're monitoring very closely. For a lot of people now contactless is effectively the driver of most small payments in that space. The other qualified comment is there's no doubt that you end up optimising a footprint all the time but we're also investing in hubs so the B Manchester store, which will become Virgin, that is a coworking space, a business presentation space, a branch, an advisory centre with expertise in it. So, we're evolving the model and we'll probably be more hub-based in that kind of expertise. So, there's a mix of factors to consider, it's not as just a one-dimensional branch dynamic. But, Gavin, the mix of business and building it?

**Gavin Opperman**

So, I wish we could do trade finance, spent most of my life in China. So, trade finance, commodities, et cetera, which I just absolutely personally love doing. We're a domestic bank, we operate domestically. Working cross-border has its limitations - it brings in additional layers and an additional level of risk across that. Our sectors focus locally. Our sectors are the ones which we can break down to show the growth within that. We also stay out of things like -- I think we would have seen construction less than 2 percent et cetera. Those are the kinds of places we just don't grow -- we don't grow into commercial real estate. So, we are very -- and that's - so where we outperformed? That's the question.

Firstly, we have outperformed in growth on the asset side. Secondly, we've outperformed in terms of margins. We've held our margins through the cycle. And thirdly I think the most important is we've got a very well-diversified portfolio. So, we've spread the risk across that. So, that would be it. We can break down each one of the sectors, and I can take you through that in individual meetings to where those growths have come through. But I think what it is, is a more balanced portfolio on a domestic basis would be the better approach that we do adopt. And that is where against the competitor banks, I think we do well.

**David Duffy**

Okay. Just behind you -- oh, beside you.

**Ed Firth, KBW**

Hi, it's Ed Firth here from KBW. I had two questions, but one was on the digital current account proposition, which I guess is quite an exciting space at the moment. There's a mass of new start-ups, et cetera. But when I look at them, you know, they're targeting billions of customers, they're expanding in new markets, they're doing big joint ventures with mega tech et cetera. And I can see the advantages that you've got in terms of your brand, in terms of your franchise, et cetera. But, when you actually boil

it all down, it seems to be that we're talking like a 1 percent shift in market share, which is sort of interesting, but I just wonder, do you really feel you're being sufficiently ambitious, given the strength of what you've got? And I guess how -- what are the sensitivities around that? What have you looked at, in terms of maybe spending more and doing more, and how do you square that versus short term return on tangible targets, and I guess this -- sorry, slightly duller part of banking. So, I guess that was my first question.

And then the second one was about mortgages, and in particular mortgage pricing. If I look at your standard variable rate, it's way above peers. So, on my numbers, I guess, somewhere around 40 percent of your mortgage revenue come from back book customers. And I suppose -- and I don't know if it's a question for the mortgage chap -- sorry I forgot your name -- or Helen. But, how does that square with wanting to be like a trusted provider of financial services, if actually for customers who haven't noticed that their accounts rolled off, or who are too poor to refinance -- you're charging them over 5 percent on a secured loan.

### **David Duffy**

Sure. And Hugh will be delighted to cover that question. To go back to your first question, and are we being ambitious enough? There are board members of mine in the room, so I think we're being quite ambitious enough. But I think the important, serious point is that we have said very clearly we're not going to try and go followers of fashion, chasing high volumes of statistics, which I see all the time from everybody. And I ask two questions, "Are you making money?" and, "Are they prime customers?" and "Usually not" and "No." So, I'm not a follower of huge volume stats.

Equally, this is a Brexit environment of unprecedented uncertainty, politically, practically, economically. So, it's a fool's errand to try and chase down some sort of specious growth level that's very, very high. So, we stand back and say, very simply, "regardless of the market out there, and assuming no upside in the market, we will deliver on these targets." And what we're really saying, underlying that, is we're going to build a model and a business that is very, very attractive and very disruptive. And when the time comes to forecast much better environments, we'll be extremely well-positioned. So, I hope that gives you a good context around that. And then maybe Hugh just to answer the question about the trusted advisor?

### **Hugh Chater**

Yeah. Thank you very much. So, standard variable rate customers, three things to say on that. First is that we have a very active programme of communication with those customers. So, that's the first thing. So, I would challenge really, back to say that I don't believe any of those customers would not know that they were moving, you know, their product was maturing and their term was coming up. Second point is we have no mortgage prisoners. And the third point is I think there's a fundamental misconception that being on standard rate is always bad for customers. For some customers, given the size of the balance, and how long they believe it's going to take them to pay off that balance, being on a standard rate is actually financially beneficial versus being on a shorter-term product and potentially having to pay an early redemption charge.

### **David Duffy**

Yeah, I think we're at 10:31 a.m. We're on the schedule. I know there's a load -- probably a load more questions, but just -- as we finish up the day, there will be opportunity as well to roll on and on. But we will -- I think we'll break now, have coffee so we can, in the room where we gathered earlier. We could take a break and do more questions in there and everyone's back in for 11:00 a.m. if we could do that. Thank you all very much.

--INTERVAL--

**David Duffy**

We're good to go. Okay, thank you. All right everyone, we're ready. I see some of you checking your swag to see if it's still there. It is. You can take it away.

So, I'm just going to quickly introduce Fraser. You haven't met Fraser before. Fraser will talk through the technology side of the whole transformation and then you'll hear from Ian. Fraser was a person we hired three years ago, or a little longer -- I can't remember exactly -- to do two things. One was to run the separation projects from NAB, the 29, of varying degrees of significant complexity, including Treasury, which was open heart surgery on the bank.

So, Fraser is the guy who delivered all of that. And also, Fraser has been the person who executed the implementation of the B model, where we have put the entire platform out across the bank with all customers on that platform. So, I thought it would be very helpful for you to hear how we're going to execute on digital and transformation from the guy who does all the work of actual execution. So, with that, I'll turn you over to Fraser, or I should talk for a minute longer because he's not ready yet?

[laughter]

You're ready. So, are you set to go? Let me tell you a story.

[laughter]

Okay, we're ready. Over to Fraser. Thank you.

**Fraser Ingram, CYBG**

Thank you, David. Good morning. Thank you very much, David. And, as David said, I was just recently appointed Chief Operating Officer. Whilst I am new to that particular role, I joined CYBG in 2016, previously as CIO, and through this period was responsible for re-architecting the bank from the inside out, leading its transformation and its digitisation.

For me, it's a real pleasure to have the chance and the opportunity to take you through much of the work my team have been doing over the last few years. So, let me take you through that transformation journey.

What I'd like to do is take you through how, since the IPO, we've created a much simpler, fully standalone bank with all the services you'd expect from a traditional bank plus many of the features and the ways of working familiar with start-ups. We have invested heavily in simplifying and digitising the channels, and these channels are used by all our customers and colleagues. The simple operating model has allowed us to make significant progress from what was, in effect, a standing start in February 2016. It's this progress and our capability and user experience that forms the basis and the platform that will both enable integration and deliver a leading customer experience. Since October, we've been finalising our plans for integration, and I'm pleased to say that the operational design and the approach as outlined at the time of the transaction hold, as does the plan.

Later, I'll update you on how integration is progressing, what we're doing to bring the banks together, how we'll do it, and over what timeframe. Most importantly, we will achieve the benefits that we've previously committed to. Finally, having both banks together on a single platform will allow us to accelerate the transformation of the business and deliver greater efficiency, realising a further £50 million pounds of net savings by 2022.

Let me take you through what we've achieved in the last three years, as we've invested around £350 million across the bank, and how this is going to help take us forward. In separating, simplifying, and modernising the bank, we've established a track record of delivery and a core competency in transformational change. We've managed to fully carve out CYBG from National Australia Bank without any customer or colleague impact, something other banks have struggled with. We've used the opportunity to modernise the bank, replacing 24 systems, introducing such things as a cloud-based H.R. system for our colleagues. We've also gone as deep as the bank's risk systems and completed a

full replacement of all our treasury solutions. The good thing is with separation projects completing just roundabout the change in control, the timing was perfect to redirect the programme team to get going on integration.

At the last Capital Markets Day in 2016, we committed to a cost take-out program called Project Sustain. This has been completed successfully, and also in parallel with separation, generating over £90 million of cost savings. A significant element of this program was process re-engineering, often referred to as customer journeys. We undertook a review of these customer journeys, improving them, making them as operationally as efficient as possible. However, the full potential of what the team could achieve was somewhat limited, as we had yet to fully build our digital platform. I'll return to this point later.

The credit card platform that we acquired as part of Virgin Money is well proven and will be integrated into the iB platform as planned. And it's the Virgin Money team who led the migration of almost one million credit card customers onto that platform a few years ago that will be leading this part of the integration. I think you'll agree this underscores the talent and experience we have from both heritages. Finally, the recent completion of IRB for CYBG demonstrates a track record of cross-bank delivery and business change, also at the same time releasing valuable capital to allow the business to grow further. As we've completed all of this, we have been improving our resilience and security investing heavily in these areas, as you would expect, and as the current environment demands.

Let me turn to the platform. Separating from our ex-parent and having a fully standalone environment gives us a foundation to build our platform. We have taken advantage of many of the most modern techniques, creating a single system that covers all customers and all products, has open architecture and has the ability now to connect to fintech via our open APIs. We believe this positions us uniquely in the market, and the addition of the credit card platform from Virgin Money completes the suite of core systems that will allow us to extend the iB platform across all products for our 6.4 million customers.

In the digital space, we started with very small beginnings from the B app in 2016. We have systematically executed the digital strategy, starting in mobile, extending to web, and then pushing it out to colleagues. Simultaneously, we've extended the range of services through our APIs, and scaled the whole system for success. These capabilities are underpinned by a big data platform that holds every transaction in CYBG since February 2016 with over 4 billion records at the last count. Using this capability, B customers have been able to tag and group spending, do projections and budgets within the B app for over three years. We in the bank use this data to make timely recommendations, establishing the next best action for our customers to take. Examples of this include the ability for customers to save money on their energy bills and only needing a few clicks to get a loan approved within a five-minute period. We can extend these capabilities without having to go into the core banking platforms and that is one of the key differences. We can quickly replicate the services on our own internal private cloud. This means that the elements of the iB platform are available as a service with APIs like Lego blocks, easy to reuse.

This powerful combination of flexibility, pace and resilience presents us with the opportunity to play a full part in the post open-banking world, and also allows us to simplify the bank still further, reducing legacy infrastructure. Over the last 18 months, we've retired previously standalone apps, switched off the old Internet banking solution, and now with over 2 million customers on the system, we will extend it further. The system itself is already scaled for many millions of customers, and we already have peak logins of over one million logins per day, and this is rising fast.

I guess this could seem a little bit techy, but we've tried to make some practical use of these developments to improve our customer experience. As I said, we launched B in June 2016, and as previously has been mentioned, the B account alone, with its combined savings account, now has deposit balances of over £2.6 billion pounds. It also gives customers many of the features the new entrants claim as leading features.

In August 2017, we seamlessly migrated all of the CYBG mobile customers onto the iB platform. And last year, every single personal customer started to use it for their main internet banking solution. Business customers are moving across as I speak because we have to work with them at a time that suits them, when they should migrate. And as Gavin talked about earlier, the significantly improved business internet banking service has also launched a tie-up with Strands software -- and this software

allows accounting, tax, and other services to be offered to our business customers. Having integrated iB into our call centres, we plan to roll out to the Virgin Money and CYBG stores later this year.

And doing all of this, we have taken a lot of learning from a three-year transformation. Indeed, this transformation was and remains key to our overall approach for integration. The always on, 24/7 mobile culture means the avoidance of 'big bang' migrations is key. Using a phased approach, scaling, proving, improving the platform over time, and of course, making sure that you take your customers and your colleagues with you on the journey, have been key.

We've also invested in Agile, making sure that not only did we do the big stuff, but we maintain an innovative edge both architecturally and for new customer propositions. Examples are to the right here on this screen, including being the first bank to open aggregation via APIs. This allows our customers to view their bank accounts from other banks from inside our app. We also launched, and you saw this in the video, the ability to pay a cheque from inside the app without the need to go into branch. And now through B, we help our customers save money on their energy bills by offering an in-app energy switching service.

We believe this creates a unique combination. All of this capability gave us a platform to undertake the transaction and with the additional -- the addition of Virgin Money, we have all the elements we believe we need to compete. We have the strengths of the major banks' primary banking relationships, a full range of payments, the combination of physical and digital distribution, a full suite of personal and business products, and all of this is managed from a single platform and seen through a single customer or colleague view. Yet, we have managed to combine this with many of the new features that neo-banks like to talk about, trailing every minor enhancement as they arrive. Our platform has many such capabilities, like savings pots, budgeting, spending categorization, Apple Pay, Google Pay, credit cards with no foreign exchange fees attached, and integration into accounting packages and this will now be supported by a highly trusted and innovative brand. We believe that this creates a powerful combination, positioning us as a unique competitor in the marketplace, and truly ready to disrupt the status quo.

But let me take you back a bit to integration, which at the moment is a key focus. As you may recall, our approach was set out at the time of the transaction last June. We are using the flexibility of the iB platform to create a great customer experience, whilst minimising the disruption through phased migrations onto established platforms. I'm delighted to say that this approach has been fully validated. The programme will deliver an improved customer experience early on, whilst minimising execution risk. It will also deliver a more efficient and simpler bank through a streamlined operating model that comprises one bank under a single legal entity, a single leading brand for the combined business, a full integrated product suite for personal and business customers. And, as I said, all 6.4 million customers on a single platform.

Let me go into some progress that we've made to date. The key programs have been completely validated and now are in delivery mode. Our fully integrated plan is broken down with the key stages for the various customers and brands. Helen showed you earlier how the new revitalised brand will begin a phased rollout later this year. Our extended leadership team is in place, with very clear accountability and ownership for delivery and this is not just for integration, but also for the broader strategy that my colleagues took you through earlier. Aside from brand and digital, David mentioned the third element of our strategy, and that was people with purpose. One of the first things that we looked to do by integration was the launch of our single purpose, a set of values, and a common set of behaviours. This was developed through extensive colleague engagement and is now also underpinned by a refreshed approach to performance management, together with easy-to-use systems that support all of this. And as you would expect, we have a comprehensive internal communications plan and a comprehensive customer communication plan to make sure that we take everyone with us.

Importantly, both the cost synergies of integration and the cost to achieve have been fully validated. And at the moment, we have benefits of around £50 million, either delivered or on track for delivery in this financial year. We also reached another major milestone in bringing the two banks together through the legal process called FSMA that creates a single bank. This process is incredibly detailed. It requires full analysis of products and services and customers. We have to lay out precisely how all of this will come together, how it will be undertaken, and most importantly, how it may impact our customers. I'm delighted to say that we have received regulatory approval, and that the initial court approval was granted last week. So, with that behind us, customer communication will begin shortly. We will seek

the final court approval in the second half of the year, and we aim to conclude all of this in October this year, thereby creating a single bank. This is a key building block in the launch of the new Virgin Money current account, and also in delivering a much more efficient business.

We've talked a lot about digitisation so far, but with a clear plan and confidence in the delivery of integration, we've been working through how we can accelerate the wider transformation, particularly in the digital space. In the last few years, we have seen dramatic growth in digital usage and since we've completed the migrations of all our personal customers, this has only accelerated. Last year alone, logins were up 39 percent and online payments up 50 percent. Having focused on the heavy lifting and the building of the leading platform, we now need to truly embed this in terms of its use with our customers and with our colleagues.

Whilst other banks have been pursuing a digital journey for many years, they often have to wrestle with the complexity of the legacy systems they've inherited through previous transactions. We have a huge opportunity to make the most of that approach where digital becomes a primary channel. The Virgin Money customers are already much more active digitally, and our experience recently with the existing Clydesdale and Yorkshire Bank customers evidences that with education and support, they can easily be encouraged to become digital first, especially when it makes their lives easier. We're confident that over the next few years, we'll drive digital adoption up from around 48 percent today to somewhere between 60 and 65 percent. This is a dramatic acceleration and change from where we started only just back in 2016 and will enable us to deliver a significant proportion of the digital efficiencies available.

Our track record of cost take out in Project Sustain realised cost savings of over £90 million in just two years, taking us to a cost income ratio of 63 percent at the time, but we always said there was significant further opportunity, and this is precisely what we're now undertaking. We're going to be able to drive out even greater efficiencies. As adoption rises and as we add more digital services, further efficiencies from the infrastructure savings will be delivered and will continue to flow. Examples of this include a new document portal that will take paper completely out the system, and achieve a much smoother customer experience for account opening and day to day customer communications. This month, we extended our chat capability onto mobile and we are looking to extend the platform, applying AI robotics and chatbots in the near future. The good thing here is many of these can now come off the shelf and are readily available, such as Google AI as a tool, and the combination with APIs will allow us to make the best use of already available and emerging solutions. It's also achievable without significant capital investment using a much more pay-to-play sourcing model that drives out further value and a simpler supply chain.

The combination of our clean architecture and APIs mean that we will have more opportunities to extend Agile delivery across more of the projects within the bank. We can achieve a lot more through the customer journey work that I mentioned earlier, making many of them a truly digital and straight through customer experience. We're confident that all of this will come together and realise an additional net cost reduction of £50 million. This is on top of the net £150 million reduction achieved through the integration synergies. Ian will talk in more detail about how this comes together in the wider group cost targets.

However, aside from the general drive for digital efficiency, the transformation we're taking is also critical to delivery and the strategic aims of the three divisions. In Business, we will deliver a smooth, easy onboarding for customers, automated credit decisions and a digital hub. For Personal, the imminent launch of the Virgin Money current account is an immediate focus. This will be supported by the leveraging of our big data capability, leading to improved customer propositions. And for Mortgages, we have a two-step approach. Firstly, using APIs to connect to brokers, and also a straight through digital mortgage process will be added to the iB platform for our Personal customer base. All of this combined with the efficiency and cost takeout from both integration and increased digitisation will support the delivery of our broader strategic priorities, and the financial targets that Ian is now going to take you through. So, with that, I'm going to hand you over to Ian Smith, who will take you through the numbers. Thank you very much.

## **Ian Smith, CYBG**

Good morning everyone and thanks to those who took the long trip over to see the Cricket World Cup.

[laughter]

My colleagues have spoken in some detail about their plans for our business, and it's my job to join it all together now in financial terms. Now, I'm an uncomplicated finance person, and my take on what the teams outlined today is this. In Business, we have the full transaction banking capability, experience and track record to compete with the biggest and best, and we're now going to take it national. In Personal, we've a strong digital offer, supported by fantastic propositions and a potential customer base to die for. Mortgages is our scaled profit engine and we'll nurture and sustain this business, driving costs to serve lower and adapting it for a changing market. And our customer strategies will be deployed under a highly valued consumer brand that opens up a world of opportunities. And as Fraser just outlined we'll serve our customers through an operating platform that's well-invested and enables us to deliver significant efficiencies.

So, realising the potential of our business in the way we've outlined today, will deliver sustainable improvements beyond the conventional financial planning horizon. But I need to draw a line somewhere. So, although the strategy we've outlined today takes our group well beyond, we're going to focus on what we'll look like in three years time in 2022. We're going to reshape our balance sheet. We'll grow in the right areas, both assets and liabilities, and that will help to drive margin accretion. We'll take material cost out through the integration of the two businesses, and our digital transformation. And we'll generate capital and build returns to our shareholders.

Now, not everyone in the room has followed us closely from the beginning. So, while I won't labour this, it's important to understand the track record on which we're building. Back in 2016, after we broke free from NAB with a new team, and after the brief chaos of the Brexit vote, we set out a number of ambitious goals under three strategic pillars. And we met our commitments in each, setting out to improve our business over a three-year period and delivering on our promises. And IRB is a good example of bringing home the bacon ahead of time in the face of some scepticism. Indeed, some said it couldn't be done. And that enabled us, with the support of our shareholders, to acquire Virgin Money, and the new group is off to a strong start.

The business presentations you heard earlier demonstrated how we're thinking about asset growth. Our intent over time is to restore the balance sheet shape to where it was pre-transaction. Mortgages should not really be more than 75 percent of our lending and that'll give our business better balance and stronger margins. So, we'll pivot to grow market share in margin accretive Business and Personal divisions, and we'll seek to hold our market share by nurturing and sustaining the mortgage book. Now the reshaping will take some time, and will certainly stretch beyond the 2022 performance horizon, but you can expect to see us make measurable progress each year.

Our focus on growing relationship deposits, as outlined by Fergus and Gavin, is the fundamental underpin of our deposit funding approach and critical to improving our margin. At our interim results a month ago, I spent some time talking about how we've been successful in growing our linked current account and savings deposits, particularly through B. And deposits sourced in this way give us not only a cost advantage, but also give us greater stickiness, and that eases the pressure of refinancing and carries better liquidity value. The absolute key outcome is to manage down the proportion of price-led deposit funding in our liability base, and to do that in a smart way. You know, the current market is to pay cash incentives for current accounts and to grow numbers quickly. We're much more interested in building those relationships through a combination of proposition and reward. And as I reported at the half year, our growth over the last 12 months in relationship deposits was around 8 percent.

We expect to continue to deliver high single digit compound annual growth in these balances going forward, and our deposit-led funding philosophy is supported by a cap on the loan to deposit ratio. Now that cap is currently at 120 percent. The refinancing of TFS will see us target an LDR of less than 115 percent by the end of the next two years.

Refinancing of TFS is important, and many stakeholders have understandably focused on it. And a great deal has been said and written about wholesale funding cost pressures, especially those driven by MREL issuance. And as you know, we have a clear plan to refinance TFS ahead of contractual maturity and that's already underway and TFS will be refinanced via a combination of relationship

deposits, secured funding, and HoldCo senior. So, you can think about replacing TFS which currently costs us about 75 basis points at our blended cost of funds.

Just turning to MREL - at a 25.3 percent MREL ratio today, we're ahead of the game versus our interim requirement for 1 January 2020. The final MREL ratio will be driven off our adjusted pillar 2A requirement in December 2021. So, we have to estimate at the moment where we need to get to, but we think that in order to meet that requirement, we estimate that issuance of £2 to £2.5 billion will be needed by December 2021. And the current cost of our MREL is circa 4 percent. Now while that's currently elevated compared to our peers, we would hope that this reduces over time, given our limited issuance requirement, but also some ratings upside potential as we deliver on integration and the new strategy.

We continue to expect that our net interest margin will be between 165 and 170 basis points for this year. Now typically, we guide on NIM from year to year, and I'm not going to depart from that practice here. We'll talk in detail about our FY20 NIM at our results in November. However, clearly this is an important driver for us and so, I'm going to say a little bit about how we expect to develop from now through to FY22. We estimate that refinancing TFS and the rollover of wholesale funding during that period creates a headwind of around 5 to 8 basis points. We also anticipate further margin pressure in mortgages, primarily driven by back book churn, rather than front book pricing.

However, we expect to manage our assets and deposit mix through the plans outlined today to offset these pressures - the pivot to margin accretive lending, at an appropriate risk adjusted rate, and reshaping the deposit mix. And taking all of these influences together, we'd expect to deliver a modest improvement in margin between now and FY22. Now, we think we've developed a realistic outlook for margin in our plans. It acknowledges pressure from things that we can't control, and it allows us to focus and work on the things that we can control - and importantly, our margin expectations are not reliant on the rising tide of interest rates. We assume only one rate rise in the plan and that's at the end of 2020.

I just want to spend a few moments on the outlook for our non-interest income. And in particular, I want to note two structural changes that will impact from next year. First, the launch of our investment and savings joint venture with Aberdeen Standard means that around 25 million of revenue from that business, and the related operating expenses, will be removed from non-interest income -- sorry, the operating expenses are not in the non-interest income - they'll come out of the OpEx base. And that will be replaced with our share of the J.V. profits. And we're very excited about the potential for this business, but it does create a structural change, I guess, in our expectations for OOI.

Secondly, we're making changes to the way we charge customers for overdrafts, and these changes will come into effect next year reducing our fee base by around £10 million. And this is an industry wide development mandated by the FCA. So, that means that expectations for non-interest income need to be re-based in 2020 before allowing for growth from the expansion of our Business and Personal divisions.

Now, I expect you're quite familiar with the story so far on integration cost synergies. But to recap for those that haven't followed closely, we identified circa £120 million of net cost synergies when we announced the Virgin Money transaction, with associated cost to do of £240 million, and rebranding costs of £60 million. And at our Q1 update in February this year, we increased our estimate of the cost savings available - broadly speaking, the same initiatives as we had originally identified, but with greater certainty as to the value we could deliver and as a result, we didn't need to adjust our cost to do. Today, we've announced additional net cost savings of £50 million taking the total net reduction on costs to circa £200 million, and this figure is net of reinvestment and inflation.

You heard just now from Fraser on the kinds of things we'll be doing over the next few years to deliver a digitally driven transformation of our infrastructure, and the opportunity that offers to save additional net costs of £50 million. Now, we always felt there was more to go on cost from a demand management, third party and digital perspective, and the larger cost base of the new group means we are happy to target a further net £50 million. And the cost to do associated with these additional savings is expected to be around £60 million, bringing the total bill for the cost out program and rebranding to circa £360 million and we expect to incur these costs roughly evenly over the years 2019 to 2021. And relative to the £200 million annual savings, this feels like a very good return for shareholders.

With this additional cost savings target, we now expect to deliver a cost base below £780 million in FY22. And this means we'll be targeting a cost income ratio of mid 40s by 2022, which we believe compares favourably with industry benchmarks, particularly in light of the economic and competitive pressures that we've assumed the industry will face in the coming years. Going forward, we'll continue to use our tried and tested methodology to manage and report against five buckets of cost saving initiatives, in transformation to organisational design, central costs, operational efficiency, and network efficiency. And this is the approach we used on Project Sustain, and how we framed things at the announcement of the Virgin Money transaction.

We expect to see the benefits flow through sequentially out to our FY22 with annual reductions in underlying costs, although we retain some flexibility for now as to the split between 2020 and 2021. We'll announce our guidance on 2020 costs at our results in November. Now, you know our track record here. We're very clear where the opportunities are, and the roadmap we've articulated over the course of this morning means we've got a very clear set of milestones that allow us to manage this cost programme safely, and in line with our growth customer and colleague agendas.

Our plan is mostly about doing more of the same but on a bigger canvas. We'll apply the same underwriting standards and manage risk appetite in the same way and we expect to see the net cost of risk track gently upwards between now and 2022, with the increase being mainly mix related. Credit losses in our book are most sensitive to unemployment and interest rates, and as David showed earlier, our base case assumptions, and indeed the broad consensus amongst economists, are that those and other key economic parameters will remain benign through FY22. So, the important takeaway from today is that cost of risk is not expected to exceed 30 basis points in the period to 2022 unless we see a substantial deterioration in the economic environment.

So, I want to focus on two key questions regarding capital. The first is, what's the appropriate level of capital to support our business over the medium term? And then secondly, how will we generate and deploy capital to improve our business and deliver returns to shareholders? Now the PRA's assessment of our ICAAP is not complete, but it's well-advanced and we expect to receive the outcome in the next few weeks. Nevertheless, the board has a clear view of the opportunities and risks in our business and the capital required to manage them. In addition, the board considers that the group should seek to operate a prudent management buffer of 1 to 1.5 percent above the regulatory minimum requirement.

And taking our current CRD for minimum 11.6 percent, that would indicate -- all other things being equal -- a target operating CET1 ratio of circa 13 percent. Now that feels about right for us and is also in line with our peers. Accordingly, the group plans on the basis of a steady state requirement of circa 13 percent by 2022 and would not ordinarily seek to hold substantial capital in excess of this, and we've estimated our capacity to deliver growth and returns to shareholders on that basis.

So, at 14.5 percent CET1 ratio today, we're substantially above our target steady state operating level, and the transition to circa 13 percent will be achieved by deploying capital in our business and returning it to shareholders. It will take some time to make that transition, and we're comfortable holding excess capital over the next two years because of what we see ahead of us. Legacy conduct is almost behind us, thank goodness, but we have plenty to do in growing and transforming our business.

The next two years will see us execute on integration and transformation along with the wash through of the bulk of the acquisition accounting adjustments. We'll grow our balance sheet, and as explained, we'll pivot from mortgages to more margin accretive but also more RWA-intense lending. We're also working on a number of substantial RWA efficiency projects to deliver over the next two years and we're taking the same approach as we did to IRB accreditation. And those efficiencies include the transition of the VM cards book to IRB, and the introduction of hybrid mortgage models. We therefore expect to keep our blended RWA density flat over the period at circa 29 percent, all other things being equal.

Now, as you're no doubt aware, we'll be taking part in the UK bank stress test regime from next year. Now, from the outside in, we think our balance sheet will hold up well to those demands, but it's no small task, and we are in no way taking the outcome for granted at this stage.

We expect to deliver strong underlying capital generation throughout the period delivered primarily by positive jaws and that gives us the confidence to continue building our ordinary dividend pay-out at a modest pace over the next two years, but picking up pace thereafter and heading towards our 50

percent pay-out target. Once we put integration and transformation behind us, we have clear line of sight to free capital generation of more than 100 basis points per annum.

So, to sum up, our orientation is to conserve capital while we need it, but not beyond that point. The combination of demand and supply discussed here should deliver a CET1 ratio well above 13 percent going into FY22 and that indicates an excess potential available for distribution outside our normal dividend cycle. Now, we will of course need to evaluate any potential return of equity against the opportunity set at that time and this would also need to be supported by the board and the PRA.

On the way to 2022, we will continue to talk to underlying results. We genuinely think that provides the clearest view of true business performance, and it strips out the noise of integration and other non-operating items. But be very clear that we expect underlying and statutory results to converge over the next three years. Adding together all of what we've talked about today, we expect to deliver a return on tangible equity greater than 12 percent in 2022 and that's on a statutory basis - we understand how important that is to our shareholders. And going back to my earlier remarks, that assumes an exit CET1 ratio of circa 13 percent.

So, I want to close by recapping on our performance targets and not so much the shape of the 2022 financials, important as they are. We're absolutely focused on delivering the outcomes that we believe are important to our shareholders. So, all of the nuts and bolts we've talked about, everything we do over the next three years is geared to delivering: a group with a strong return on tangible equity -- greater than 12 percent; a machine that generates more than 100 basis points of free capital per annum; and a sustainable dividend. Building from the small beginnings in 2017, where we paid the first dividend for many years, towards a 50 percent pay-out ratio. Absolute focus. And with that, I'll hand back to David.

#### **David Duffy**

Thanks, Ian. Thank you, Ian and I hope that Ian's detailed presentation provides you with the substance that gives you the same level of confidence that we have about the delivery of the targets, and I'm sure we'll cover that more with questions. And Ian has just reiterated the increased shareholder returns that the plans will deliver.

So, let me just close the session today by just recapping on the broader strategy. It's very straightforward and it's powered by what you can see is a fairly unique set of capabilities that we have developed, and it delivers strong outcomes, increased shareholder returns, and all of this in a tough environment. And importantly, positions our bank to compete and to disrupt the market in the years to come, beyond even the plan period.

Given our position in the marketplace, we often get the question like, are we a challenger bank? Do we see ourselves as a major bank? I think the combination of CYBG and Virgin Money has created a unique, digitally-enabled competitor that combines the strengths of a traditional larger bank or major bank, and the strengths of the neo banks, leaving us very well-placed for our ambition to disrupt the status quo.

You heard earlier today also about our plans for Virgin Money, the brand, and the exciting customer experiences that everyone is developing in the three business areas, as well as how we're enabling these through our digital transformation integration journey. I think when you bring this together, you should expect to see us deliver a wide range of innovative propositions into the market over the coming years.

Later this year, we will be launching the revitalised Virgin Money brand to customers and changing our TopCo name to Virgin Money UK PLC and accompanying this in late 2019 will be the new Virgin Money personal current account. And in early 2020, the first Virgin Money Business current account. And our investment in the digital experience that we've talked a lot about will continue at pace, and you'll see the outcomes of that in 2020 in things like the open API connection to the major broker mortgage platforms, which are used by, frankly, the majority of the leading brokers in the UK. As we continue to unleash our digital capabilities, we will be launching a new digital mortgage hub with AI assistance in the near term, as well as building digital personal lifestyle and business propositions.

And we're confident that these propositions will delight customers. And so, we're targeting a top three customer experience as measured by the CMA customer service quality rankings in both Personal and Business by 2022. That's a significant target. This will also substantially increase our market share in Personal, Business and current accounts whilst growing lending ahead of the market, but in a disciplined way. With an energetic and purpose-led workforce, and quite balanced in terms of gender and diversity, we are confident that we will succeed in our delivery and position ourselves for whatever the longer-term future holds.

However, as you can see here the world is changing at a very fast pace. Technology companies, payment companies, and telecom companies are already competing in the core banking channels and they all have unrivalled access to our customer base and are in dialogue with our customers many times a day. And whilst fintech's offer a challenge, the existential challenge will come from the bigger alternative providers of financial services, and open banking will assist in this evolution. Although it may have started slowly in the UK, I have no doubt that it will accelerate and create new market competitors as well as perhaps some opportunities for us.

We have today been a leading innovator in the market, developing the first open API capability and we've successfully partnered with both fintech and larger players using our platform. And I think we can use this capability to deploy a wide range of partnerships, including other Virgin services, and to create a unique customer lifestyle offering.

In short, we are confident that our new strategy positions us well in the market. However, to be very clear, as Ian has said, our first priority is to deliver on the promises we set out today, to achieve our targets, and to excel in integration and transformation. And of course, in parallel, we will be positioning the group to engage successfully with the emerging disruptive models, and we will ensure that Virgin Money will be the brand that disrupts the status quo.

So, that concludes the formal remarks I wanted to make, but before we move to questions, I will show you a short video that will explain what it will feel like to be a Virgin Money customer in the future. Thank you.

[video plays]

Great. Thank you. So, I'm sure that's got all the juices flowing for the tough questions on finance. I'd like to have Ian join me and Fraser as well because this last session of question and answer is, for those who are staying, will be around technology, as well as obviously all the slides Ian went through. So, same process, we will go through the questions in the room first and go to the webcast, if we have any there. So, thank you for your attention thus far and we'll move to Q&A. Thank you. So, we have some over here.

### **Aman Rakkar, Barclays**

Morning, it's Aman Rakkar from Barclays. Couple of questions please. First of all, on your - just regarding your cost of risk comments earlier. Can you give us an indication of what you see as your kind of through the cycle cost of risk? I mean, I don't want to pay too much to your kind of economic assumptions at the beginning, but the unemployment rate, you know, you indicated that you expect it to kind of fall based on those estimates out in the market at the moment. I mean, that seems like quite an optimistic assumption from here. Clearly, your push into the unsecured consumer credit is going to be highly linked to the unemployment rate from here, so, just kind of trying to understand what the kind of sensitivities are there and particularly if we get a bad economic outturn regarding Brexit, presumably that could move against you, and would that change your appetite for that part of the market?

A second one is on risk weighted assets and I note your comments about efficiencies. Could you give us any indication on how much impact you'd expect from the change in the definition of defaults is something we talked about at half year, but if you could tell us what kind of impact you're expecting there? Thank you.

### **David Duffy**

Sure. Maybe just one qualifying comment on unsecured and then Ian will provide the rest. When we're talking unsecured you know we're talking about credit cards and Virgin Money and a prime kind of asset class. So, you know, it's very much more that's the focus of our unsecured business so it's not as countercyclical as you as you might think in the first instance. But Ian, do you want to just talk through some of the elements around risk weights and the overall risk provision?

### **Ian Smith**

Yeah, of course. Thanks, Aman. So, a couple of things, that the economic assumptions that David talked to are those of Oxford Economics, and not necessarily the ones that, that underpin our plan. So, for example we assume a single rate rise, other commentators think there is more scope for interest rate rises in there. And our own working assumption is that unemployment stays where it is today rather than tracks down, as assumed by most commentators at the moment. So, you know, I feel, I feel pretty good about our conservative positioning in that regard.

You know, our through the cycle cost of risk. So, I was asked this question three and half years ago when we when we did the IPO and it's -- I've had to carry the baggage around with me ever since. Because it depends on the shape of your business, it depends on, you know, your assumptions about length of cycle, blah blah blah blah. I think if we - on the shape of our business today, which is not necessarily going to be the shape of our business tomorrow, our estimate of that sort of through the cycle, taking a sort of one in 25 approach, is a roundabout 35 to 40 basis points.

Now, what are you going to do with that? I would sort of take you back to where we think that, on the basis of some reasonably conservative economic assumptions, that we don't go above 30 basis points in that period. I think it's critical to think about what a hard Brexit would do to us and the rest of UK banking. Because all of our preparations thus far, in our assumptions, have been around, you know, how do we ensure that our customer base is as resilient that it can be on the Business side. And you know, how do we make sure that we're as defensively positioned for Brexit, both through sort of capital and liquidity. So, we've done all that - we've talked about that before.

I mean, a hard Brexit, I guess, our sort of thought on the likely scenario is, you'd see interest rates get cut. And, you know, we're not sort of suggesting that the only way we manage our margin is through interest rate rises and things like this - we're very conservative on that. You would expect significant economic stimulus from the government particularly as they caused this mess [laughter]. So, you've already seen Mark Carney talk about how the Bank of England is ready to deploy substantial measures to support the economy and to support banks; and in lending he stopped short of talking about the re-introduction of TFS, but you can imagine that there would be some helpful stimulus coming from regulators and authorities there.

With rates staying low, customers won't come under any pressure in terms of interest rates. Yeah, I think we'd see growth slow, but our plan is not predicated on, you know, significant levels of growth. So, I'm not dismissing the risk, Aman. But, you know, I think that we'll get quite a lot of help from the government and the Bank of England, and, importantly, as David talked about at the beginning, you know our plan is very much predicated on self-help, the things that we can do for ourselves, and that becomes much more relevant in the context of a hard Brexit.

### **Aman Rakkar**

Can I just ask on the RWAs?

### **Ian Smith**

Oh, beg your pardon. So, at the half year, I said that the CYB heritage had already factored into our RWA models that new definition of default. Virgin Money still has to do that. So, when I've talked about our RWA efficiencies, that is net of the impact of that change of definition being flowed through the Virgin Money model. So, when I talk about holding average risk weight density flat, that takes account of the opportunities that we see but also the risks particularly in relation to that new definition of default.

### **David Duffy**

Yeah, to your right. And then we'll go across the row.

**Tom Rayner, Numis**

Yes, thank you, Tom Rayner from Numis. Could I just ask you a couple of questions on mortgages please? Slide 75 on your margin walk, it looks like you're budgeting for one, maybe two basis points off your mortgage margin per annum. Just wondered - sorry, sorry, the question. Yeah. I just went off on a tangent there. The question that I'd like to ask you on that is if the competition at the front end does intensify, would you be prepared to see the book actually shrink or would you be more aggressive in your pricing?

The second question, which I was flipping to. Can you give us an idea of the sort of return on equity – or the tangible equity that you're currently making on your mortgage book, and when you think about your sort of targets going forward for sort of group RoTE, what assumptions on risk weightings between now and 2022 you're sort of building into your pricing decisions? Thank you.

**Ian Smith**

OK. So, I guess, we're pretty agile in terms of our ability to respond to changing conditions in the mortgage market. And you know, conversations on a sort of week to week basis with Hugh and the team sort of reflect that and then reflect in some of our pricing decisions as we seek to manage volume. So, I think we would absolutely be prepared to respond in the short term to things that we thought were not sensible from a business perspective. I really liked Hugh's description, which is that we won't stress the mortgage business for growth.

This is a long-term business, so, if we found conditions unattractive, we would be perfectly prepared to take our foot off the gas. But we have an expanded offering through this, so I think there are plenty of opportunities. We're taking our offering out to a much broader landscape of brokers now and we've always been pretty good at going to find sensible places in the mortgage market to play, but we are not tied to any particular growth target.

**Tom Rayner**

The risk weights?

**Ian Smith**

Sorry, RoE on mortgages. I mean, we don't talk about product or divisional ROEs at the moment, suffice to say that our pricing models ensure that we make a return above our cost of capital in mortgages.

And the assumption on risk weights, I think I've dealt with that with Aman's question, which is -- so, on our overall risk weight sort of outlook, we would expect to hold flat at around about 29 percent of credit RWAs. The bulk of the improvement that's implicit there, because clearly, we are lending into more RWA-intense parts of our business, is, it comes from the mortgage book. And, you know, we're aware of the, clearly, of the sort of the negative impact of things like, changes to definition of default, but also very conscious of the opportunities that moving to new hybrid models give on the VM side - they currently work on a through the cycle basis, and also some pockets of very clearly identified conservatism that were highlighted in part of the CYB heritage transition to IRB. So, we think there's a lot to go for there.

**David Duffy**

Great, move along to your left if you wouldn't mind. We're keeping in that row just for some particular reason.

**Robert Sage, Macquarie**

Yes, it's Robert Sage from Macquarie. I've just got a couple of points. The first was just a question of clarification, I think it's on slide 74 where you're talking about TFS refinancing, and it looks, from the

slide, as if nothing is going to be repaid in financial year 2020. I was just wondering whether that's the case or whether that was just a function of the way in which the chart's set out?

The second questions were really just concerning the cost numbers and guidance, and I was just wondering, given the fact that so much of your cost base, like most banks, is consisting of sort of staff costs, whether or not there's going to be sort of redundancies or reductions in staffing numbers over the next couple of years which will sort of provide some of the cost reductions over that period?

### **Ian Smith**

So I'll ask Fraser just to support me on how we see the sort of, the shape of those cost reductions. But just to come quickly, it's -- you have to look very closely at the chart, but the repayments there are blocks, are the contractual maturity and we plan to repay ahead of contractual maturity, so we haven't given the repayment schedule we intend to follow. We've simply shown in there that nothing is required to be repaid until 2021. So, hopefully that clears that up.

In terms of staff costs. So, you know, we had set out through the description of the integration synergies that we expected to reduce branches from a de-duplication perspective, and broadly speaking, that's a roundabout sort of 70 branches or so, and we had talked at the time of that the 2.7 announcement a year ago, that we would expect to see 1,600 colleagues leave the group as a consequence of integration, hopefully managing as much as we can of that through attrition rather than redundancy. But I think that we've got a particular shape of our cost base that, that leads to some of the opportunities that Fraser has talked about, and can we talk a wee bit about that?

### **Fraser Ingram**

Yeah. I'm glad to. Thank you. Yeah. So, just picking up from Ian's point, we spend significant amounts with third party providers across both heritages and so a big part of the savings will come from that, also, the ways of sourcing I alluded to this early in the presentation. Some of the solutions that are available are significantly less expensive to deploy than previous kind of more sequential projects, so we'll seek to reduce costs that way.

There's no doubt that if people aren't phoning you up or turning up to your branch, you don't have people hanging around for it, for no purpose, but this is a gradual process of digital adoption over three or four years. So, working with Fergus and Gavin, we would plan that if there were further staff reductions, to manage that through the normal process rather than swathes of things happening over and above integration. But there is no doubt that with less transactions you will need less people at some point in the future, but it's what they then do in these franchises, these outlets and Fergus was talking about the value-add activities - that's going to become more important.

### **David Duffy**

We'll just go behind you and then come over here.

### **Georgi Gunchev, Bloomberg Intelligence**

Hello. Georgi Gunchev from Bloomberg Intelligence. Just a quick one. So, if you're targeting essentially above market volume growth and maybe see some incremental improvement in margin, yet if we look at your targeted cost base in 2022 and the cost: income ratio, that implies a sort of very, very limited top line growth. I was wondering, can you maybe comment on that or is that maybe a bit too conservative?

### **David Duffy**

I mean, just on the top line growth, we have been conservative in our mind, we just see the next period of time being a one which settles after Brexit with a slower economy that's been a consequence of that. So, the simple model we've operated on an underlying basis, deliver these targets that we set out without assuming a better environment than the slightly weak environment that exists today. And that

includes therefore a sort of slower growth of the top line and a more effective cost out and capital optimisation program. So, that's the mix we're using when we think about it.

**Ian Smith**

So, yeah, David sort of talked about the, you know, the mindset and philosophy here, that there are some mechanical issues at play too. Remember, I have talked about a significant step down between this year and next in our non-interest income. So, that that divot, if you like, is something that we'll earn back over the period. And we talked about modest net interest margin improvement over that period as well so that isn't going to lead to significant growth in income. So, I think you've called it about right, and it's a feature of some of the moving parts that we see in what we deliver here.

**David Duffy**

I think we have one just here and then we'll go back across and then up to John. Just down here the front. That's right.

**Fahed Kunwar, Redburn**

Thanks, it's Fahed from Redburn. I'll ask less questions this time, just a couple. I'll kind of follow up on that last one actually. Can we see revenue decline next year because I think about your margin kind of bridge, it feels like the MREL costs will come sooner, the OOI reduction come sooner, the asset mix will take time but come in, but the deposit mix I'm assuming is more back end loaded considering the products are only out end of 19, beginning of 20. So, is there, is it feasible that 1 percent CAGR revenue growth could be down and then up, so, I appreciate the end point is still positive but in the interim, could revenues fall in 2020?

And then the second question was on the growth in unsecured. So, IFRS9 under the stress test is particularly punitive on unsecured lending, we found that out in the stress test for Lloyds and Barclays. Is that all factored into the capital guidance? In terms of are you still thinking about transitional or do we expect when it does become fully loaded and I guess in a couple of years time, we'll see a step up in the capital requirements? Thank you.

**Ian Smith**

Ok, thanks Fahed. I'm not, I'm not going to get drawn into detailed revenue guidance for now. We're trying to talk about the sort of the shape of the next three years. Definitely the -- but I'll then contradict myself. Yes, you'll absolutely see that that decline in, or the sort of the step down in non-interest income hit next year but things like MREL, things like that, the sort of mortgage margin pressures and everything else will also sort of spread themselves out over that period.

We're not particularly front loading so you know our issuance on MREL will be managed through a period where we still have TFS at 75 basis points and other things. So, I see it as a bit more gradual but I'm not going to go into a bit more detail than that - I've got to leave some work for you to do.

So, and then unsecured and IFRS9. You know one of the reasons - and I talked about this at the half year - that we saw a bit of a step up in in the blended cost of risk, was IFRS9 related because of that sort of earlier recognition of provisions.

So, our guidance at the moment is predicated on you know, taking into account the full impact of IFRS9 both in terms of P&L and capital. It doesn't because we're not, we're not projecting a stress in those numbers, looking at a stressed outcome. But we have you know, we've, we always think about that in particular in terms of ICAAP and other things, so you know we feel pretty good about that. And there is in the Bank of England stress test as you know, relief, capital relief available when assessing performance against hurdle rates for that acceleration impact of IFRS9.

**Fahed Kunwar**

So, can I just quickly push on one point. I know you said the cost, the drags to margin are gradual; are the benefits to margin that you get from asset mix and deposit mix, are they more back end loaded or are they gradual across the period?

**Ian Smith**

They're gradual too. So you know, this is a steady reshaping of the balance sheet.

**David Duffy**

Thank you. We're just going cross here and then we'll go up to John and then back to you.

**Guy Stebbings, Exane**

Thank you it's Guy Stebbings from Exane BNP Paribas. The first question was on deposit mix, and then I wanted to circle back on the previous question on capital. In terms of deposit mix supporting margin it's clearly quite an important component part going forwards. Can I just check what your assumptions are regarding the industry on deposit mix and whether you are assuming that the industry sees a negative mix effect as TFS unwinds and we see some competition potentially come back into the deposit market and the term deposit market?

And also just to follow up on that point, in terms of where the benefits going to come through, pointed to previously one point six million new credit card customers within the Virgin Money book as being a real area of growth. One could argue, with those customers, were attracted by very attractive promotional rate balance transfer credit cards. Are there any to be attracted by attractive new credit card propositions with incentives etc? So just a bit of pushback there too to see your sort of conviction on that.

And then on capital, you mentioned in response to the question on higher impairment losses under IFRS9 or the stress test, some offsets from the Bank of England, but are those not temporary in terms of the unwind or where banks have got systemic buffers they're able to have flexibility? So I'm trying to understand what the offset is if you have higher stress drawdowns because of IFRS 9 and the credit card book. To put, to put it simply if your stress drawdowns were over 5 percent, would that not imply a PRA buffer above one and a half percent longer term?

**Ian Smith**

Yeah. Okay. So, on the on the sort of stress test stuff. But bear with me because we haven't done it yet, but I'll tell you how we think about it.

So, deposit mix and if I am, if I don't do this justice I'll get Fergus to support. I think fundamentally here, is while we've seen various estimates of TFS demand and, or, rather a requirement to refinance TFS across the industry and what that might do to deposits, our fundamental approach here is really not about thinking about that sort of marginal price led deposit, but it's about quite frankly, putting an absolutely compelling proposition to those customers of the big banks, who are getting a shocking deal at the moment and about you know, improving that offer for them.

So, the idea that we would then find a way to, with a compelling proposition, to persuade those customers to walk across the road to us with their current account and linked deposits is really the fundamental premise of what we're going after.

The VM card base is really interesting, because as you say there is there is a portion of it that is clearly that has seen a good opportunity, and to have very sort of, cost effective borrowings and we wouldn't ordinarily expect to hang onto those customers, but we've got really strong evidence that a good chunk of those customers engage and stay. And that's given, you know, some of our long history in that space. And we've also added over the last year and a half, a very strong cohort of some of the most engaged customers in the credit card industry, being the Virgin Atlantic customer base. You know those are people who we would expect to be, you know, very clearly interested in our proposition. So, of the one point six million, in order to deliver on Fergus's targets, we don't need all of them, we just need a, you know, a decent chunk of them to come and join us so we feel pretty good.

We've got measured targets. We're not, we're not threatening to do a Monzo here in terms of the number of customers we sign up but the quality of those customers and the persistency of them is what we're focused on. So that's really how we think about deposit mix. Thanks Fergus.

So, in terms of capital and offsets and things. We're in, we're in active discussions with PRA as are, as is everyone else in the industry about how you manage the, you know, that sort of acceleration impact of IFRS9. And you're right in saying that at the moment, a sort of convenient approach that was adopted last year was to offset, you know, allow them to offset that against their systemic buffers. We won't have a systemic buffer. And so clearly, we're working with the PRA for a solution that can be applied across the industry that doesn't rely on deducting it versus a systemic buffer, because otherwise we would be unfairly disadvantaged. So.

### **David Duffy**

I think we're going to John Cronin and then we'll go back up behind John.

### **John Cronin, Goodbody**

Thank you. It's John Cronin, from Goodbody. Look, following on from the last question in relation to the credit card customer base, you speak quite confidently about your ability to retain a good cohort of that customer base. You know, turning that question in the other direction - does that imply that there could be potential - as part of the fair value unwind you've guided you've written off the EIR assets that Virgin Money had. You know, based on your current experience does that look to be an overly conservative assumption, and appreciate it is an early stage?

My second question is on the, just on the cost takeout theme again. Just trying to understand what to the extent that it's segregatable, what kind of percentage of the current operating cost base relates directly to staff - that either work in, or indirectly in relation to branch based activity? And what costs, what other running costs are there associated with the branch network - if you could give us a sense of the overall proportion of operating costs that relates to that, those activities that would be helpful.

And then thirdly just on the, like you've incurred a lot of capital spend, you've built a new platform. A lot of others, as it's been observed earlier today, a lot of your competitors are investing pretty aggressively in their own digitisation efforts. What are the risks, look as technology evolves as your, as your customer requirements evolve that more spend will be needed on a three-year view for example? Thank you.

### **Ian Smith**

So, I'll have first go and if I don't if I hit the nail on the head then, then David will tell you what the right answer is. So let me let me first deal with this sort of the, you know, the next bank off the cab rank thinks of a bigger number and puts that out into the market. That may well, you know, it may well be that bank X needs to spend three billion dollars over the next, over the next few years - we don't. We've got a fantastic platform. Fraser - help - a sort of comparison of a number of systems versus --

### **Fraser Ingram**

So, we have a fraction of the number of systems that many of our competitors talk about. Going to use a live example though - we launched faster clearing, which was an industry requirement, and I know for a fact that our cost to do this was a fraction of some of our big competitors. I can't name them, but I know it as a fact. So it's quite interesting that scale, and certainly in transformation programmes, can actually drive inefficiency of the programme itself.

So I think when you look at it, it's more a focus of what is it we need to build in our platform that we don't have already to drive out the efficiency - straight through mortgages, connection of mortgages, drive out paper, which there is still an awful lot of in our organisation, and get customers to do the easy transactions for themselves; there aren't many of them left that we've to do. So, I don't know where we would be spending all the money on; we are investing in terms of partnering with others for things like AI but rather than try and build the capability ourselves, we're partnering. It would be a fools errand to think that we could compete with Google who spend billions a year on their investment in AI, so we'll

lean into that and use that technology. So I think there's a myth about some of these numbers and that - the faster clearing is a good example of where we're delivering significantly cheaper.

### **David Duffy**

A very simple way to think about it, you know, along the lines of what Fraser was just saying - are you investing in proposition and competitive capability? Or are you investing in the core infrastructure to allow you invest in the second okay, or the first? And what we've done is fixed the first so we can invest in the second, and that is a low-cost access to new customers through innovative propositions and then secondly, brand associated with that. So what we're really saying is the brand innovation that we can bring, together with the proposition development cost to do versus the others, is why our numbers are going to look different. And when you look at the other numbers you have to start off by going - okay, so what is the number for just managing to digitise 20,000 systems that they have in their mix and then for the complex product mix and then for the overseas complications and, and, and...and I would wager if I sat down long enough our numbers of spend compare with any big player out there on a proportionate basis for what we're doing. But the most important point is we've built the infrastructure to win in propositions and that's the delta.

### **Ian Smith**

So...and then the dull point about what's the number. So, we anticipate, and we built into the plan over the next few years a comparable sort of run rate in terms of investment expenditure to what we've had over the last couple of years. So now we're not talking about a big step up there, for the reasons that we've spoken about and it's factored into the plans.

So, John your second question about percentages of cost base that relates to staff and branches and all that sort of stuff. The bulk of, you know, after integration, and we've talked about the impact of integration, those other cost savings are really coming from a range of areas, many of which don't relate to staff and therefore makes the cost to do more manageable. So, you know, but broadly speaking I think our cost base, something in the order of sort of 40 percent people, 60 percent everything else. So if you're sort of wanting to think about that, but this is not about people in branches necessarily. If you look at network optimisation and the contribution that gives from integration it's actually, it's the least significant of our cost reduction levers. So, it isn't really the focus for us.

### **Fraser Ingram**

Just to build on that point, when you do a straight through mortgage process, the customer still wants to sit with a colleague in the branch to take them through the mortgage process. It's the people that are tagged on to the lack of it being straight through that the efficiency drives, all that kind of stuff, in terms of the hand-offs and things like that that we'll be getting rid of a lot of.

### **Ian Smith**

And then your initial question, John, was about the credit card customer base. I have no problem at all with the assumptions and the basis on which Virgin Money pre-acquisition accounted for credit cards. And I thought that the data that supported the EIR assets and everything that went with it was very robust and indeed we use a lot of that data today in our business in managing our credit cards.

But it was an opportunity to clear the decks and to be a bit more conservative going forward. And we wanted to take that opportunity, not least because I never want to talk about it again. And then secondly -- look we think it's appropriate to try to minimise the volatility from changing assumptions. So, I still feel good about the way we did it, but I actually think that it was a pretty robust calculation.

So, I wanted to come back briefly on your question Guy, just on deposits, because the other thing is that I don't want every conversation now to be about retail current accounts in the same way that we've had a mortgage obsession for the last couple of years. The contribution that we expect to see from Business deposits through this is also critical. And I know people understand that but there's a real balance here around - Fergus talked about kind of changing the mix rather than necessarily you know, sort of particularly aggressive growth in balances there - changing the mix, but our Business division presents a massive opportunity to grow low cost deposits as well.

**Robert Noble, RBC**

Good morning, it's Rob Noble at RBC, just a few questions. You said you don't disclose RoE by product segment, but we see presented all your business heads here today. How, how are they incentivised, how did the group targets filter down into the individual products? What are the sort of key performance metrics that you're looking at there?

Secondly, could you refinance - or the TFS, or have you ever thought about using the index long term repo facility through the Bank of England to mitigate the cost and the impact of the TFS rolling off? And then lastly, Libor transition. Can you just explain to us how this will affect your relationship with SME? I presume all of the SME book is Libor linked in some way. What will happen to the back book and is there a potential cost coming through from that? Thank you.

**Ian Smith**

Thanks Rob. We at the leadership team - I mean, I should get David to talk about it, but I hear it so often I can repeat it verbatim - is that it's group first. And sort of individual businesses and other things and teams second. So, all of our incentives are about how we work together to deliver the group outcomes. And so, you know I work very closely together with the folks that run the business and other stakeholders to make sure that we're pulling the levers appropriately to deliver group outcomes but our sort of key measures, I mean we measure at a very detailed level in each of the bits of our business, but the key measures in terms of incentives, both for the leadership, but also for the rest of our staff are based on group outcomes.

**David Duffy**

Entirely right. So I'm sensing that, if we put up the divisions where we manage them end to end with the returns we are going to develop that pathway. But I'm very conscious about whilst that's the case we are not going to run a silo-based institution. So we start with - the primary activity is managing the group franchise deliverable - what we're going to do for the total shareholder return. And then we have to flex up and down inside that as a portfolio to deliver it. Then within that everybody will have sub targets and metrics which we won't bore you with the detail of today. But the key, the key to the model is group delivery of shareholder return. That simple.

**Ian Smith**

And yes, you're right. There are a few sort of, lower cost funding levers that are available to us like ILTR. You know what, what we do when we plan on a sort of strategic basis is think about how we change the shape of our balance sheet and so thinking about sustainable sources of funding. My treasurer and I have a discussion about you know using ILTR is like sort of getting into hardcore overdraft or certainly using that as a sort of a regular lever. So we use ILTR as a short-term liquidity management tool but we don't see it as a long term funding option, but we mix and match through this, and we will do our best to squeeze every basis point of margin out through that and from time to time that'll be things like long term repo or other tools. But fundamentally, what we're talking about today is changing the shape of our liability stack.

And then Libor transition - it's a big deal. It definitely impacts Gavin's business and I can see he's itching to reach for a microphone [laughter] - be good to say what you think. But yes the bulk of our, our Business customers are geared off Libor and so we're working on transition - that's included in our plans. And then the other thing that where Libor impacts us is in, in wholesale funding markets, and again, we're adapting gradually. So our latest secured funding issuance was both sort of STS compliant but also geared off Sonia, so we're factoring that change in. Anything you want to add on Libor and Business Gavin?

**Gavin Opperman**

No Ian, I think you covered it. I think the shift from Libor to Sonia, we've really factored it into our calculations. It's - you must remember a lot of our assets are short dated, so the roll over the assets and the refinancing, and then we'll be able to reprice some of those assets, so we've got enough time

windows big enough, we don't sit with long-dated assets. So from that perspective, it would be a lot easier for us to be able to shift, but a lot of work has already been done in the background.

**David Duffy**

Okay. Thank you. I think we're going up the back where there are hands up - against the window.

**Charmsol Yoon, UBS**

Thank you, this is Charmsol from UBS. Just two clarifications: one on loan losses. So just to follow up on your comment on that your working assumption is to assume flat on unemployment rate going forward. So do you expect loan losses on personal loans to be broadly unchanged from here as well? Because I just wanted to check, because I think you had 317bps of gross cost of credit in the first half and 10 percent is already 32 basis points.

And secondly on NIM, if I can come back to Slide 75. The five to eight bps impact from TFS and wholesale funded refinancing - does that include the NIM benefit from lower liquidity portfolio as you repay TFS? And when you say refinancing does that include new issuance as well? Thank you.

**Ian Smith**

Ok. Thanks Charmsol. So I think I used the expression at the half year that having seen a bit of a step up in the gross cost of risk in each of our key portfolios that I'd expect to see things level out from here. Certainly in terms of just, you know that - that the extent to which has driven either by credit quality or IFRS9 effects and things like that, you know we think that's now factored in, so, the increase is really about mix change - that increase at group level. That's not to say we won't see the odd sort of variation in gross cost of risk on those portfolios, but you shouldn't be thinking about baking in big changes that are, that are related to portfolio performance.

The net interest margin, so five to eight basis points is really about, you know, that impact of replacing eight or so billion of funding with, currently at 75 basis points, with a blended cost that's a bit higher than that, and over the period from now to FY22. It doesn't include any assumptions about lower liquidity or liquid asset requirements or anything of that nature. It does factor in re-financing issuance, all that sort of stuff. So what we're trying to capture - because it has been a really important topic for everybody that we've spoken to over the last sort of six to nine months - was really just to sort of capture the impact of that and sort of put it in a box really and then think about how do we, how do we offset it.

**David Duffy**

Okay can we just pause in the room for one second and just do some calls coming in from the webcast and then we'll come back to the room. Andrew - do you have the questions come in, you'll have to read them out right?

**Andrew Downey, CYBG**

I will, have we got the mic on? Yes. So question for you Ian on ASI/JV income, so Gary Greenwood from Shore Capital has asked why the income number for 2019 is circa 25 million, which is down a bit from the prior year 2018. What's the driver for that?

**Ian Smith**

Okay. Thanks Gary. So one of the things that we implemented, shortly after acquisition we implemented it but it was something that had been under consideration for some time, was a reduction in, in the fund management fee for our biggest funds there. So we thought it was the right thing to do from a customer perspective, and, so that really coincided with, with the post-acquisition period. So, we are now charging lower fees on our funds in that business. Right thing to do for customers, but that's what's driven the reduction from the 2018 income of 35 to our estimate of 25 for this year.

**Andrew Downey**

Another follow up from Gary - he was just asking whether the hundred bps of capital generation is pre or post dividend and if you're looking at that 12 percent RoTE, when during the year, would you have to assume that any excess capital would be paid out because that would clearly impact the profit in that year, as he's trying to back calculate.

**Ian Smith**

Yeah it would. So when we talk about that sort of hundred basis points of free capital generation that's essentially what's available for dividend, so it is pre-dividend and it's available for dividend, reinvestment and growth, whatever we think is the right thing to do with it.

And then just for the purposes of, you know arithmetic and modelling, I haven't - I haven't got a date which in 2022 which I expect to be at circa 13 percent, but the way we think about this is that that's the exit rate and that's sort of going - that by the time we get to the end of that year we should be very comfortable to be at that rate.

We may be at a different level in actuality, but you know that that depends on how things evolve over time. And then the discussion is what do you do with any excess you have. But so again, think about it as a, as an exit rate if you like and not focus on a sort of particular date at which we get to that number.

**Andrew Downey**

Okay. And question from Azib Khan at Morgans; he's noted that we've announced a 13 percent target but have said that the ICAAP is incomplete. So his question is are we confident as to what the PRA buffer will be? And you also talked about holding excess capital for the next couple of years. What are the things that you want to hold that for and does that mean there'll be no capital management over the next couple of years?

**Ian Smith**

Thanks Azib. We're as confident as we can be with the PRA. So we've had plenty of discussions with them over the course of the assessment. You know the PRA is never going to sort of tie its hands and prejudice its outcome but we're as confident as we can be that, that you know, we will get an outcome that's around our expectations. Not much more we could say for that.

We get our capital assessed on an annual basis. So you know I would expect us to be working on things with the PRA every year, but very comfortable that I think we've made a strong case for where we should be, and I'm not seeing any particular concerns in that regard coming back, but we have to wait for the final outcome. And, so the things that we want, that makes us think about conserving capital for the next couple of years, it's really about the demands of integration and of those things that mean that we'll manage our capital pretty carefully. But we intend to pay dividends through that period. You know our ordinary dividend build will continue throughout and we're very comfortable we've got capacity to do that.

I think the key thing then is what happens in in 2022 when you know, integration is complete and we've got a clear line of sight to how much above our operating level we are at that point.

**David Duffy**

So that's it from the webcast? I think we have -- we'll go here and then we'll go over to the left. So just on the right. Thank you.

**Ed Firth, KBW**

Hi, it's Ed Firth again from KBW. Can I - can I just bring you back to this mix change, this loan book mix change that you're guiding us to? And I know you said it wasn't necessarily fully at 22, but you're still talking medium term and the maths is pretty simple. I mean if you keep your mortgage book broadly

flat, the unsecured and SME is going to have to grow comfortably double digit every year, and that is into a market which you yourself say you have some concerns and you're trying to be prudent. And the volume growth in the market as a whole at the moment is what, mid-single digits and falling pretty rapidly.

So I'm just trying to square how that approach to unsecured and SME lending fits with the sort of prudent outlook on the economy and Brexit and all the, all the other stuff that goes with that. So I guess that's the key question.

And just related to that, could you just confirm - were you one of the recipients of the PRA letter last week? I assume you were because I'm struggling to find 20 banks that could have been, but I assume you must have been one of them. And if you were, could you just comment on some of the observations they made and how you feel that their work might be changing the way you think about your business over the next 12 months?

### **Ian Smith**

Yeah. Okay. So Ed, we're not -- we're not projecting aggressive growth through this, and we're also not talking about moving to a different place on the risk curve. We are going to take market share, there's no question. So we're going to take market share, particularly in business, of that enormous increase in addressable market that we expect to have. So I feel -- I feel pretty comfortable about that. And as I say, for us, particularly in terms of reshaping of the balance sheet, 2022 is just a point in time. You know, the move towards that mix will take longer than that. So, but it is about market share and about ensuring that we maintain our current approach to managing risk and that's quite important.

Yes, we were because, as you say, essentially the fast-growing firms review was everyone outside the sort of big five incumbents. I can't remember whether there's a rumour that Nationwide were included in - which bucket they were included in - but it basically captured the rest of the market. And it was a, you know, there were a series of generic observations about risk management practices, modelling, other approaches, suitable investment in capability. I guess what I would point to - and we got the generic letter that everybody got with those observations about the industry. And I thought there was a bit of cheekiness about how it was portrayed in some of the press.

Essentially, we - and we got that letter about a week after we got a very, a bespoke letter from the PRA saying for your business these are things that we're worried about, we want management to be on top of and that we'll be watching closely. There were none of the things that were in that generic fast-growing firms letter. So that's the first point.

Secondly, I would point to the fact that, you know, we've gained IRB accreditation, first bank to have done that for - since the crisis - apart from Skipton Building Society. And in doing that, as important as your models, is the assessment of the risk management framework and your general risk capability, to get that badge of being trusted to calculate your own risk weights. So I would point to that as evidence of, you know, I don't -- if the PRA is worried, it's not about us.

### **David Duffy**

And just one additional flavour to the unsecured. We're not talking about an entirely new customer base. There's some new customer growth. But as Fergus talked in his spreadsheets around a number of the sizable numbers of existing customers who don't have the product and we're bringing it all together, we'll be looking at them. And it's because we understand their credit risk, the existing knowledge of the credit risk is complete. So we're playing into a space where there's no new credit risk that we're taking whilst growing unsecured. So it's a balance of those factors.

I think we had one over here. Yep.

### **Chris Cant, Autonomous**

Thanks, it's Chris Cant from Autonomous. I wanted to come back to Slide 78, where at the bottom you gave a bar chart of the sort of expected phasing of your cost synergy or cost takeout plan. I just wanted to understand, given that you talked about the 12 percent RoTE being sort of an exit run rate and don't

try to back anything out too much from that. Are you -- what are you showing us here with the 15, the 60, and the 25? Is this the amount which has been delivered by the respective year end? Is this the amount which has been delivered by the respective period because I suppose depending on how you read that you could be assuming that you're doing meaningfully less than 780 in 2023 for instance. So I'm just trying to understand what -- how should we be interpreting that bar chart. That would be the first question.

And I had a couple of questions on regulation if that's okay. The Pillar 2A buffer you use as your assumed future Pillar 2A when you give us the amount of MREL issuance you think you need to do. Am I right in thinking that you're assuming the entire integration add on plus some of whatever you've got in there for pensions is dropping out over time?

And on risk densities you talked about some risk efficiencies or model efficiencies including moving the Virgin card book across. Now I'm going back a very long way here to sort of early Virgin Money presentations, but my understanding was that their expectation was Virgin cards going on to IRB would be a negative, and certainly that's what happened with TSB back when they made that transition. So are you now expecting that to be a positive? I just wanted to understand why you'd flagged that as one of the things which is helping you keep that risk density flat. Thanks.

### **Ian Smith**

Okay. Morning, Chris, and thanks for that. So the way to read the chart at the bottom there is that those percentages are the percentages of the -- the proportion of the 200 that will be delivered against the cost base in each period. So we're talking about that net cost reduction. So, you know, cumulatively all of that 200 is delivered by the end of 2022. So that that says that we expect our outcome in 2022 to be 780 or less, on that basis.

Yes, you're right - so our current estimate as to a buffer does factor in some things that we would expect not to be part of the MREL requirement, and I'm using my words carefully there because we'll continue to have a Pillar 2A requirement for pension, but we believe that pension risk isn't something that would be -- that would need to be recapitalised in a bail-in. You can only, sort of, pay that capital out once, and so we exclude that from thinking about MREL. The other pieces around integration are the stuff we haven't yet factored in and, you know, that's an opportunity, I guess, to have, perhaps, a wee bit lower end-point Pillar 2A because by December 21 we should be well out in front in terms of integration and that risk will be behind us. So, but you're right that you know, we have taken some stuff out of Pillar 2A to calculate that.

And then in terms of risk efficiency and, in particular cards, I'm not aware of, sort of, previous statements that VM may have made in that regard. We have been running our IRB models in parallel for some time on that book and it's a really high-quality book. And so in the circumstances, what we see is that the average risk weight that that -- the modelled average risk weight is below the standardised level, so that's why we're pretty confident. And it was -- some of the stuff that we're now very familiar with in terms of taking the CYB business through accreditation. We're very comfortable in the strength of those models and our ability to deliver that particular efficiency.

### **Chris Cant**

And as a final point on that card book, there's no risk that -- as some of -- as the book seasons and people come off balance transfer periods, you don't see a pickup in the risk density; the risk density that you're looking at on those IRB models is looking across the life of the customer, it's not to do with the fact that they're currently not paying any interest?

### **Ian Smith**

So clearly the spot modelling benefits from the arrears at the time and you'll have low arrears on those that are still in their interest free period for sure, sort of, you know, particularly helped. But as we estimate our potential benefit from risk weighted assets, we do take account of what a normalised level of arrears on that book would look like. So that's the first part of it.

The other thing is that this isn't all about the benefits. I wanted to give a couple of examples of why we thought risk weighted assets could go down. There are also some things in there where you see risk weighted assets go up. So there are elements of, for example, our unsecured book that may cause risk weighted assets to go up. So we've taken all that into the round in giving that guidance on holding risk weight densities flat.

**David Duffy**

Okay, we may be exhausting the population here. We'll take one more here. How we doing on the webcast Andrew?

**Aman Rakkar**

Thank you very much. It's Aman Rakkar from Barclays. Just one follow up question. Well, one additional question if I may. It's actually just regarding your decision to rebrand the whole group to Virgin Money. I think it's just interesting, you know one of your largest competitors in UK retail banking operates a multi-brand strategy and quite successfully, you know, essentially is, quite a lot of levers on the asset and liability side that they kind of, quite tightly manage, make a big thing of it.

Clearly, your rebranding decision sits at odds with that, so I was just kind of interested in - is that something you thought about and, is that an opportunity missed, you know, potentially to operate a sort of commercial pricing in CYBG in your heritage markets and Virgin Money elsewhere and - just interested for your thoughts on that?

**David Duffy**

Sure. I think they're very different circumstances. You'll be encouraged to know we did think about it. [laughter] The important thing, though, on a serious note, when you go back to where we were - Clydesdale is a Scottish brand that's not travelling very well beyond that. The Yorkshire brand was - it is God's country and I recognise that - it is having difficulty crossing to the northwest, put it that way, for historical reasons.

So what you found yourself in a position of was having, yes, other brands, but very localised, so it's a different model to what you're referencing perhaps. And what we wanted to try and do is get to a national brand model as quickly as possible for sustainability and competitive reasons. As we talked before, we talked about building B and making it geographically agnostic for those very reasons. So that's the first thing - we felt that the circumstance we were in, as opposed to anybody else, and the opportunity this presented were just - it wasn't really a discussion; it was a strategic imperative almost.

The second dimension is that the brand we're talking about is not limited to a DNA of a traditional bank. So it's a non-banking brand. It's an open banking world. People talk about banking platform and customer lifestyle platforms. We have it. We have all these other group companies that we can integrate into our offering, so the brand offered that other dimension. So different, I think, than just the more narrow example. I understand the point clearly, but in our discussions we were very clear about why we'd want to do it and the options beyond the traditional discussion that were afforded to us as a consequence of doing it, if that makes sense.

**Ian Smith**

Right. Can I answer back?

**David Duffy**

Yeah.

**Ian Smith**

If only to make my CEO uncomfortable, that CFO is talking about brand. [laughter] You have to make a choice and we're very comfortable with the choice of going all in behind something that we think is going to be brilliant. Or we could spread our bets, spread our marketing dollars, all that sort of stuff, and

do reasonably in two or three other brands. This is about that sort of core business, that national proposition. You know, the real sort of ambition - doesn't preclude doing something interesting later on, but I think you know - so Lloyd's might think it's a good thing to do to have a different deposit proposition in Birmingham Midlands or something like that. This is about being really clear with our customers and straightforward about what we offer and what we stand for.

And I think, you know, I'd sort of look at HSBC and things - while they have a couple of other brands in their stable, that's not for price differentiation or anything like that; it's because it was a good idea to hook up with Marks and Spencer and broaden your business that way, but they're fundamentally behind this HSBC brand and I think that's a clarity that's really important to us.

**David Duffy**

Okay. I think I'm getting signals so we will stop it there. On that happy note of "to infinity and beyond" with the brand, there is lunch next door. So for those of you want to stay - no obligation - there's lunch and there's a breakout room in there as well where there are people from the businesses who are happy to discuss, in more detail, the businesses if you'd like.

Thank you very much.

*[END]*