30 July 2018

CYBG PLC: Third Quarter Trading Update

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

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

**NIM of 218 bps (9M annualised) in line with guidance and reiterating c.220bps for FY18**
- The mortgage market remains extremely competitive with continued front book pricing pressure
- During Q3 retail asset pricing pressure was offset by improved SME margins and lower liquidity costs
- Diverse funding sources enables deposit margin management in a highly competitive market

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

**Continue to progress the recommended all-share offer for Virgin Money**
- Shareholder documentation expected to be published on 31 July, with meetings held on 10 September
- Targeting completion in calendar Q4 2018, subject to shareholder and regulatory approvals

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

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

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

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

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

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

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

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

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

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

**Net Interest Margin (NIM)**

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

**Conduct**

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

**Capital**

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

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

**Virgin Money recommended all-share offer**

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

**Outlook**

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

Investors and Analysts
Andrew Downey
Head of Investor Relations
+44 20 3216 2694
+44 7823 443 150
andrew.downey@cybg.com

Owen Price
Senior Manager, Investor Relations
+44 20 3216 2785
+44 7484 908 949
owen.price@cybg.com

Media (UK)
Christina Kelly
Senior Media Relations Manager
+44 7484 905 358
christina.kelly@cybg.com

Press Office
+44 800 066 5998
press.office@cybg.com

Powerscourt
Victoria Palmer-Moore
Justin Griffiths
07725 565 545
07899 967 719

Media (Australia)
Citadel Magnus
Peter Brookes
James Strong
+61 407 911 389
+61 448 881 174

Forward looking statements

The information in this document may include forward looking statements, which are statements regarding, among other things, the Group’s assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as ‘expects’, ‘aims’, ‘targets’, ‘seeks’, ‘anticipates’, ‘plans’, ‘intends’, ‘prospects’, ‘outlooks’, ‘projects’, ‘believes’, ‘estimates’, ‘potential’, ‘possible’, ‘forecasts’, and similar words or phrases. These forward looking statements, as well as those included in any other material discussed at any related presentation, are subject to risks, uncertainties and assumptions regarding the Group’s securities, investments, present and future business strategies, and the environment in which the Group will operate in the future including, among other things, the development of its business and strategy, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geopolitical factors, changes to its board and/or employee composition, exposure to terrorist activity, IT system failures, cyber-crime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England, the FCA and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group, future capital expenditures and acquisitions planned by the Group, the repercussions of the UK’s referendum vote to leave the European Union (EU), the UK’s exit from the EU (including any change to the UK’s currency), Eurozone instability, and any referendum on Scottish independence.

In light of these risks, uncertainties and assumptions, the events in the forward looking statements may not occur. Forward looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates gives any assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document and/or any other material discussed at any related presentation. All forward looking statements should be viewed as hypothetical. No representation or warranty is made that any forward looking statement will come to pass. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates undertakes any obligation to update or revise any such forward looking statement following the publication of this document nor accepts any responsibility, liability or duty of care whatsoever for (whether in contract, tort or otherwise) or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the information in this document.

The information, statements and opinions contained in this document do not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. This document does not purport to contain all of the information that may be required to evaluate the offer by CYBG PLC for Virgin Money Holdings (UK) plc (‘Virgin Money’) (the “Offer”) or any investment in the Group or Virgin Money or any of their securities. Any investment decision should be made solely on the basis of formal offer-related documentation to be released in relation to the Offer. Any person considering an investment in the Group or Virgin Money is advised to obtain independent advice as to the legal, tax, accounting, financial, credit and other related advice prior to making an investment.

Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.