



CYBG PLC

Consent Solicitation Proposal

24 JULY 2019





AGENDA

Background

Proposal

CYBG Financial Strength



EXECUTIVE SUMMARY

Merger	<ul style="list-style-type: none">- On 15 October 2018 CYBG PLC ("CYBG") acquired Virgin Money Holdings (UK) plc ("VMH")- Created the sixth largest bank in the UK, with total assets of £90.2bn³- Full-service retail and SME offering with digital enabled capability- CYBG to be renamed Virgin Money UK PLC by Q4 2019
Strong capital and funding profile	<ul style="list-style-type: none">- Strongly capitalised and on track to meet MREL requirements<ul style="list-style-type: none">✓ CYBG CET1 ratio 14.5%^{1,3}, Total Capital ratio 21.9%^{1,3}, MREL ratio of 25.3%³- Investment grade credit ratings (Moody's / S&P / Fitch)<ul style="list-style-type: none">✓ Clydesdale Bank PLC ("CB") 'Baa1' Positive ²/ 'BBB+' Stable / 'A-' RWN✓ CYBG 'Baa3' Positive / 'BBB-' Stable / 'BBB+' RWN✓ Virgin Money plc ("VM") 'Baa1' Positive / not rated / 'A-' RWN✓ VMH 'Baa3' Positive / not rated / 'BBB+' RWN
Proposal	<ul style="list-style-type: none">- Post FSMA Part VII transfer, VMH is expected to have negative retained earnings and available distributable items ("ADIs") and its credit ratings will be requested to be withdrawn- CYBG keen to protect Investor Interests - proposing to substitute the issuer on VMH's outstanding AT1 and Senior Debt securities to CYBG- Upfront fee payable upon the passing of the relevant extraordinary resolution- The Proposals have been considered by a Special Committee of the Investment Association ("IA"). The members of the Special Committee have informed VMH that they find the Proposals acceptable and that, subject to client and other approvals, they intend to vote in favour of the Proposals



BACKGROUND



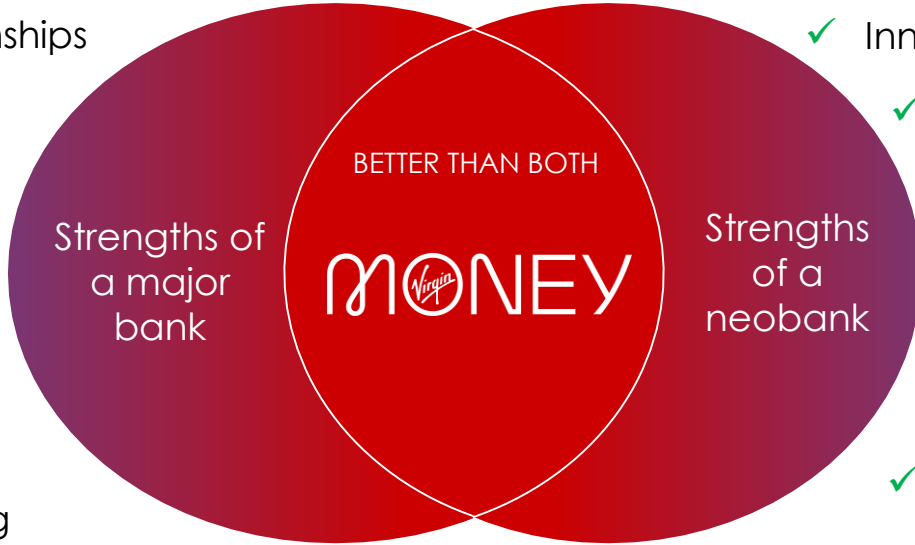


COMBINATION CREATES A UNIQUE DIGITALLY ENABLED COMPETITOR

All the strengths of the major banks...

...with the digital agility of a neobank

- ✓ Primary relationships
- ✓ Trusted brand, loyal customers
- ✓ Full personal and business offering
- ✓ Multiple distribution channels
- ✓ Digital capability and Open Banking
- ✓ Multi-product customers



- ✓ Innovative brand & edge
- ✓ Customer lifestyle intelligence
- ✓ 'Pay & play' functionality
- ✓ Innovative digital platform
- ✓ Saving pots functionality
- ✓ Limited back-end legacy systems



OUR PURPOSE AND AMBITION DRIVE OUR STRATEGIC PRIORITIES...

Our purpose:

Making you happier about money

Our strategic ambition:

To disrupt the status quo

Our strategic priorities:



Powered by our:



Delivered brilliantly in line with our values:





...DELIVERED THROUGH OUR CLEAR DIVISIONAL PLANS



Business

- **Expand** our relationship proposition nationally
- **Launch** Virgin Money for business
- **Enhance** the customer experience



Personal

- **Transform** our relationship proposition
- **Enhance** the customer experience
- **Deepen** our customer relationships



Mortgages

- **Digitise** the customer experience
- **Maximise** relationships to create brand advocates
- **Optimise** the franchise for value

UNDERPINNED BY OUR



Highly trusted brand



People with purpose



Digital leadership



AND LOW-COMPLEXITY INTEGRATION PLAN

Phased, low-volume, low-complexity integration...



Personal Current Accounts

c.100k VM current accounts
Transfer via Current Account Switching Service (CASS)



Personal & Business Savings

Bulk redirection service:
industry process for accounts
not covered by CASS



Mortgages and Fixed Term Savings

Renewal on target platform



Personal Credit Cards

CYBG accounts migrate to
the TSYS platform

...with a clear, measured plan for delivery

Delivered by experts from both entities

Both organisations experienced in
executing large-scale
transformation and integration

No time pressure for delivery

Integration plan formulated with
complete discretion over timing

Leveraging CYBG's flexible and scalable technology

Minimal new technology beyond
scaling; all products will be
integrated on iB platform

Integrated approach for brand, people, IT and products

Significant focus on re-brand of
Clydesdale, Yorkshire and B
brands

No 'big bang' migration events



WE WILL TAKE A PHASED APPROACH TO OUR RELAUNCH, REBRAND AND MIGRATION

NEW
CUSTOMERS

PERSONAL

New VM current a/c
and linked savings

PERSONAL

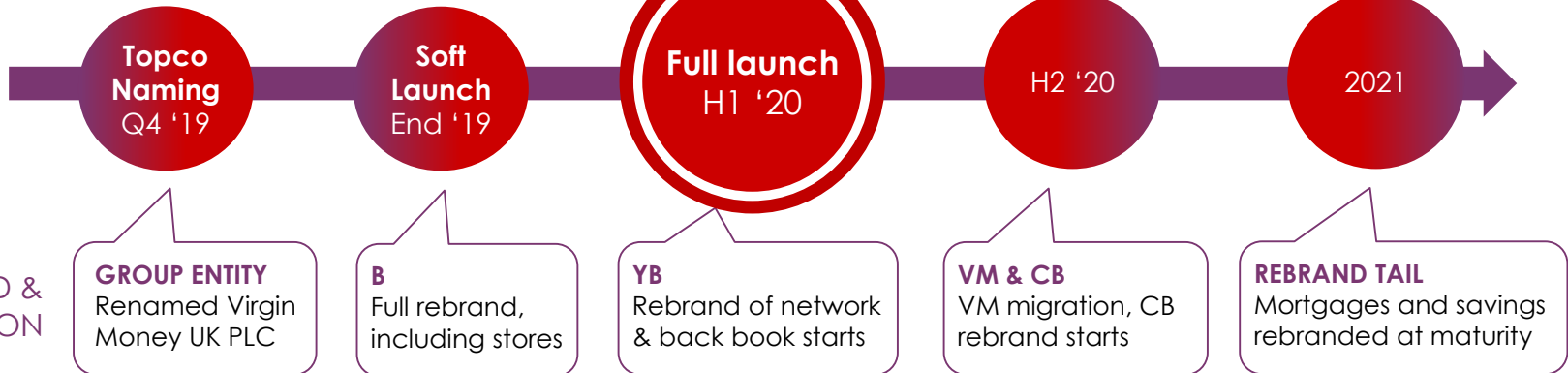
New VM
personal loan

BUSINESS

New VM
current a/c



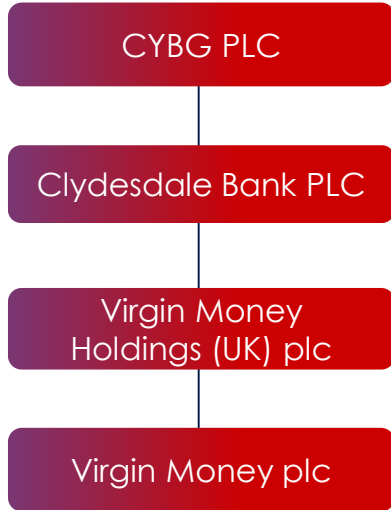
New brand launched once a critical
mass of front book products re-branded



REBRAND &
MIGRATION



CURRENT GROUP STRUCTURE



CYBG PLC

- Holding company of the combined group
- Future issuing entity for all Regulatory Capital and MREL under single point of entry resolution model

Clydesdale Bank PLC

- Main operating entity of the combined group

Virgin Money Holdings (UK) plc

- Intermediate holding company - no future issuance expected from this entity
- VMH AT1 instruments subject to a small minority interests deduction at CYBG consolidated level

Virgin Money plc

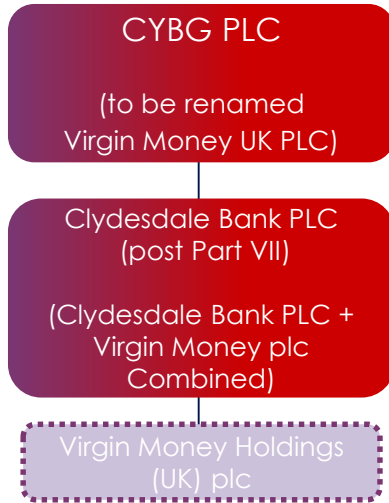
- Retains banking licence and continues to operate as it had done pre-combination

Our Brands





TARGET GROUP STRUCTURE



- The FSMA Part VII transfer of the business of VM to CB is expected to complete by the end of calendar year 2019
- First court date held on 13 June
- Second court date scheduled for 26 September 2019
- Effective date expected to be 21 October 2019
- Virgin Money becomes trading name of CB
- No 'big bang' migration events; subsequent phased, low-volume, low-complexity integration
- Ultimately, post transfer, VM will relinquish its banking licence, and VMH will no longer be an Intermediate Holding Company

Our
Brands





CURRENT VMH BALANCE SHEET AND PART VII IMPACT

VMH Balance Sheet

	Dec-18 £m
Investments in controlled entities and associates	1,401
VM Senior Debt held	349
Other assets	23
Total assets	1,774
VMH Senior Debt	347
Other Liabilities	9
Share Capital and Share Premium	656
VMH Additional Tier 1	384
Other Reserves	(2)
Retained Earnings	380
Liabilities and equity	1,774
VMH Consolidated Group – Total Assets	45,116
Virgin Money plc – Total Assets	44,790

- VM constitutes over 99% of the Total Assets of the VMH Consolidated Group
- VMH's principal assets consist of its investment in VM and other subsidiaries along with £350m of senior debt lent to VM
- The FSMA Part VII transfer will be completed for nominal consideration, transferring VM's business to CB
- The VM Balance Sheet will not then be material and VMH's investment in VM will be materially written-down
- This will result in negative Retained Earnings and Available Distributable Items as the VMH Senior Debt and VMH AT1 will remain on the Liability side
- Should the consent solicitations subsequently be successful (relevant securities highlighted in red), VMH would then have minimal assets and cash resources



PROPOSAL





PROPOSAL OVERVIEW

Proposal	<ul style="list-style-type: none">- Substitution of the issuer on the Notes from VMH to CYBG
Target Notes	<ul style="list-style-type: none">- £230m 8.75% Fixed Rate Resetable Perpetual Additional Tier 1 Securities – First Call Date 10 November 2021 (“AT1 Notes”)- £350m 3.375% Fixed Rate Reset Callable Senior Notes due 24 April 2026 – First Call Date 24 April 2025 (“Senior Notes”)- On 3 June 2019, VMH issued a notice stating its decision to call the £160m 7.875% PNC2019 on 31 July 2019 and hence these notes have been excluded from the proposals
Rationale	<ul style="list-style-type: none">- CYBG keen to protect investor interests- Post FSMA Part VII transfer, VMH is expected to have negative retained earnings and available distributable items and its credit ratings will be requested to be withdrawn
Issuer Ratings	<ul style="list-style-type: none">- VMH: Baa3 (Positive) / BBB+ (Rating Watch Negative) [Moody's/Fitch]- CYBG: Baa3 (Positive) / BBB- (Stable) / BBB+ (Rating Watch Negative) [Moody's/S&P/Fitch]- The FSMA Part VII transfer is not expected to affect CYBG's ratings
Issue Ratings	<ul style="list-style-type: none">- Following a successful consent, the expected ratings of the AT1 Notes and Senior Notes are Ba2/B/BB- and Baa3/BBB-/BBB+ [Moody's/S&P/Fitch] respectively



EARLY PARTICIPATION FEE

- Eligible Noteholders who submit instructions in relation to the Notes will be eligible to receive a Early Participation Fee of
 - 5.0% in respect of the AT1 Notes⁽¹⁾
 - 5.0% in respect of the Senior Notes⁽¹⁾
- Ineligible Noteholders are eligible, subject to applicable laws and other conditions, to an amount equal to the Early Participation Fee
- In line with IA best practices, the Early Participation Fee will be paid to all Eligible Noteholders and Ineligible Noteholders of the relevant Notes irrespective of whether they voted in favour or against the relevant Extraordinary Resolution⁽²⁾
- Payment of the Early Participation Fee for each Note is subject to, amongst other conditions, the passing of the relevant Extraordinary Resolution and the relevant amendments to the T&Cs of the relevant Notes subsequently being implemented
- The information contained above is a summary only and should not be taken to be a complete description of the Consent Conditions in the Consent Solicitation Memorandum

Note:

(1) of the principal amount of the relevant Notes for which an instruction is submitted, subject to the Tabulation Agent receiving the Instruction prior to the Early Instruction Deadline and Consent Conditions being met

(2) where the Consent Conditions in respect of that Note have been met



RESULTS OF CONSULTATION WITH THE IA

- The Proposals have been considered by the Special Committee of the IA at the request of the Issuer
- The members of the Special Committee, who hold in aggregate approximately:
 - 18.58 per cent. of the current principal amount outstanding of the AT1 Notes; and
 - 41.95 per cent. of the current principal amount outstanding of the MREL Notes, have examined the Proposals
- They have informed the Issuer:
 - a. that they find the Proposals acceptable; and
 - b. that, subject to client and other approvals, they intend to vote in favour of the Proposals in respect of their holdings of the relevant Notes
- The Special Committee has advised the Issuer that this recommendation relates only to the proposals set out in this Consent Solicitation Memorandum with respect to the Notes and not to any future offers or proposals which the Issuer may make



OUTSTANDING AT1 & SENIOR NOTES ISSUED BY CYBG & VMH

AT1 Notes

Issuer	O/S, £m	Coupon	Issued	Rating	Reset Basis	Call Features		
						Reset	Next Call Date	Price
VMH	230	8.750%	Nov-16	-- / -- / --	ms	793	Nov-21	100%
CYBG	450	8.000%	Feb-16	-- / B / BB-	ms	625	Dec-22	100%
CYBG	250	9.250%	Mar-19	Ba2 / B / BB-	T	831	Jun-24	100%

MREL (Senior) Notes

Issuer	O/S, £m	Coupon	Issued	Maturity	Rating	Call Features		
						Reset Basis	Reset	Next Call Date
VMH	350	3.375%	Apr-18	Apr-26	Baa3 / -- / BBB+	£ms 1yr	1.868%	Apr-25
CYBG	500	4.000%	Sep-18	Sep-26	Baa3 / BBB- / BBB+	T 1yr	UKT 1y+2.800%	Sep-25
CYBG	300	3.125%	Jun-17	Jun-25	Baa3 / BBB- / BBB+	£ms 6m	2.292%	Jun-24



COMPARISON OF TERMS – AT1 NOTES

Existing Terms

Issuer	VMH
Amount outstanding (£m)	230
Maturity	Perpetual
Call date	Nov 2021
Coupon	8.75%
Coupon Reset	£ms 5yr+7.93%
Rating	-- /-- /--

Terms Post Consent Solicitation

Issuer	CYBG
Amount outstanding (£m)	✓ 230
Maturity	✓ Perpetual
Call date	✓ Nov 2021
Coupon	✓ 8.75%
Coupon Reset	✓ £ms 5yr+7.93%
Expected Rating ¹	Ba2 / B / BB-

- All economic terms will remain unchanged
- Subject to certain conditions, investors will be offered an Early Participation Fee of 5.0% of the principal amount



COMPARISON OF TERMS – MREL NOTES

Existing Terms

Issuer	VMH
Amount outstanding (£m)	350
Maturity	Apr 2026
Call date	Apr 2025
Coupon	3.375%
Coupon Reset	£ms 1y+1.868%
Rating	Baa3 / -- / BBB+

Terms Post Consent Solicitation

Issuer	CYBG
Amount outstanding (£m)	✓ 350
Maturity	✓ Apr 2026
Call date	✓ Apr 2025
Coupon	✓ 3.375%
Coupon Reset	✓ £ms 1y+1.868%
Expected Rating ⁽¹⁾	Baa3 / BBB- / BBB+

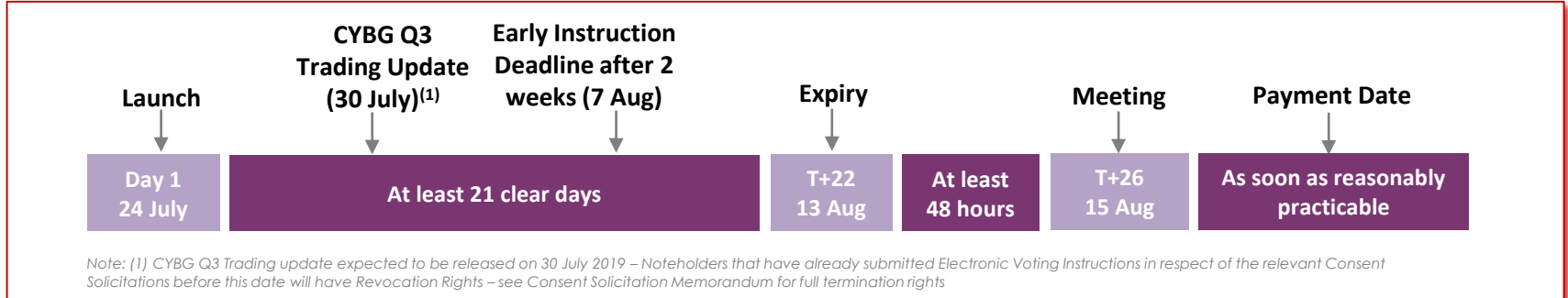
- All economic terms will remain unchanged
- Subject to certain conditions, investors will be offered an Early Participation Fee of 5.0% of the principal amount



VOTING REQUIREMENTS & INDICATIVE TIMELINE

	First Meeting	Adjourned Meeting
Quorum Requirements	<ul style="list-style-type: none"> - AT1 Notes: $\geq 66 \frac{2}{3}$ per cent. - Senior notes: > 50 per cent. 	<ul style="list-style-type: none"> - AT1 Notes: $\geq 33 \frac{1}{3}$ per cent. - Senior notes: Any fraction
Voting Requirements	<ul style="list-style-type: none"> - For both Notes: ≥ 75 per cent. of votes cast 	

Indicative Consent Timeline



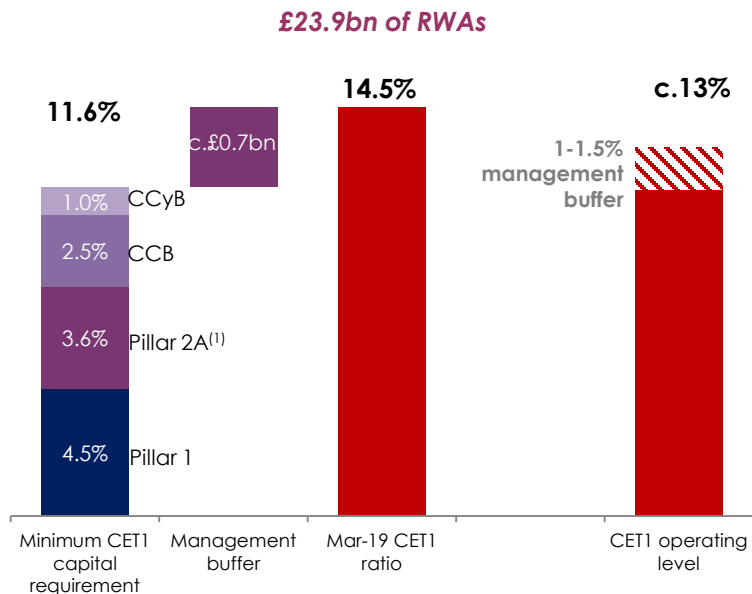


CYBG FINANCIAL STRENGTH



CYBG STRONGLY CAPITALISED

CYBG strongly capitalised...



...with prudent management buffer

- Significant buffer to MDA threshold (2.9%)⁽²⁾ and to the AT1 Trigger (7.5%)⁽²⁾
- The group will seek to operate with a prudent 1-1.5% management buffer above the regulatory minimum
- This is equivalent to a c.13% CET1 operating level over time
- CYBG had available distributable items of £1,012m as at 31 March 2019
- Following the call of VMH's £160m AT1, the CYBG Group will have £930m of AT1 instruments outstanding - the optimal amount of AT1 at March 2019 was c. £650m

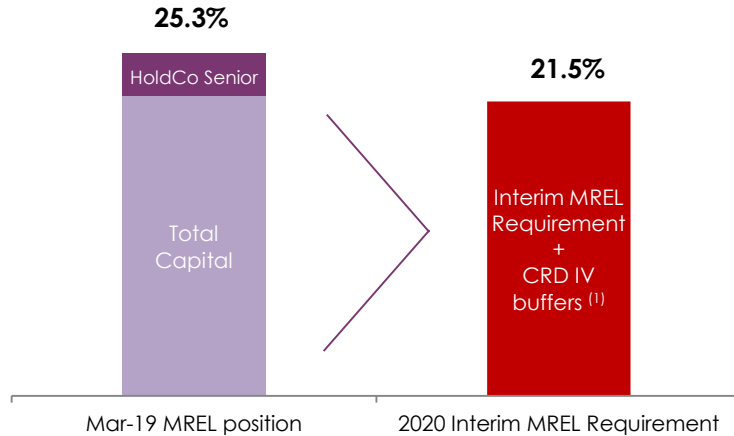
Note:

(1) Incorporates perceived risks relating to the integration of the two businesses

(2) As at 31 March 2019

WELL PLACED ON MREL

Well ahead of 2020 MREL requirements



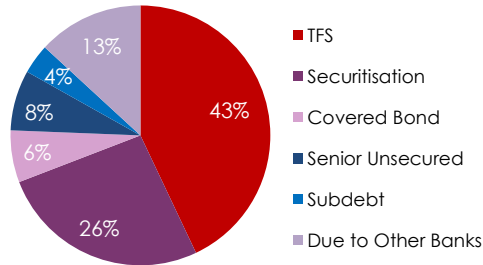
...and well positioned for 2022

- At 31 March 2019 CYBG's MREL holdings were already well in excess of its Interim MREL requirement
- The Interim MREL requirement from 1 January 2020 will be 18% plus capital buffers (CRD IV buffers are currently 3.5%)
- The group is on track to meet its expected final MREL requirement in 2022 of two times Pillar 1 + Pillar 2A capital, plus capital buffers
- Planned issuance of £2.0-£2.5bn by Dec-21, includes expected Pillar 2A evolution, RWA inflation and Management Buffer

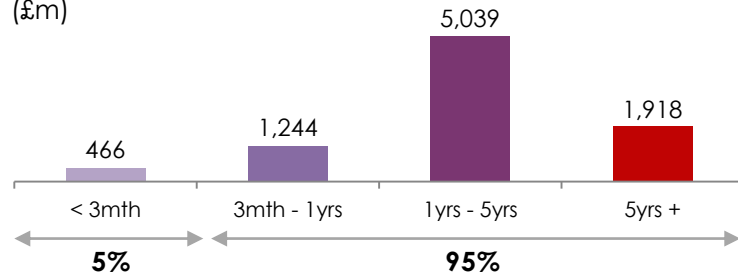
DIVERSIFIED WHOLESALE FUNDING PLATFORM

Diversity of funding sources...

Wholesale Funding by Product (%)



Debt Securities in Issue by Maturity (£m)



...clear, achievable TFS re-financing strategy

- TFS refinancing to continue in advance of contractual maturity (£0.4bn repaid to date), broadly evenly split:
 - Growth in lower cost relationship deposits
 - Secured funding
 - HoldCo senior issuance to meet MREL
- Steady-state wholesale funding requirement of £2-3bn per annum
- Focus on broadening the currency of the group's wholesale funding issuance



ALL CREDIT RATINGS AFFIRMED OR UPGRADED POST ACQUISITION

- CB and VM upgraded by Fitch, VM and VMH upgraded by Moody's, all other ratings affirmed post acquisition
- Fitch long term rating placed on Rating Watch Negative as part of a wider action on a number of UK banks, following Fitch's reassessment of the probability of a no-deal disruptive Brexit scenario

		Credit Rating			Commentary
		Moody's	S&P Global	FitchRatings	
CYBG PLC	Pre-acquisition ¹	-	BBB- / Stable	BBB+ / RWN	<p>Moody's³: "The positive outlooks ... reflect the potential for a stronger financial profile of the new group if it is able to execute its business and integration plans and contain the execution and operational risks arising during the merger of Clydesdale's operations and platforms with those of Virgin Money.</p> <p>S&P⁴: We believe the transaction has shown CYBG's breakaway position as the main challenger to these banks among the plethora of smaller U.K. banks and building societies. If the integration process is managed well, CYBG could use its enhanced scale to improve statutory returns and gradually diversify its franchise</p> <p>Fitch⁵: "We expect the combined CYBG and VMH will benefit from increased business model diversification, strengthened profitability supported by possible cost synergies and a more extensive national network. We expect that capitalisation will remain adequate and above regulatory requirements following the acquisition."</p>
	Post-acquisition	Baa3 / POS	BBB- / Stable	BBB+ / RWN	
Clydesdale Bank PLC	Pre-acquisition ¹	Baa1 ⁽²⁾ / POS	BBB+ / Stable	BBB+ / RWN	
	Post-acquisition	Baa1 ⁽²⁾ / POS	BBB+ / Stable	A- / RWN	
Virgin Money Holdings (UK) plc	Pre-acquisition ¹	Baa3 / Stable	-	BBB+ / RWN	
	Post-acquisition	Baa3 / POS	-	BBB+ / RWN	
Virgin Money plc	Pre-acquisition ¹	Baa2 / POS	-	BBB+ / RWN	
	Post-acquisition	Baa1 / POS	-	A- / RWN	



APPENDIX





CREDIT RATINGS

		Credit Rating			Product	Programmes
		MOODY'S	S&P Global	FitchRatings		
CYBG PLC	Long-term	Baa3 / Positive	BBB- / Stable	BBB+ / Rating Watch Negative	Senior Unsecured, Subordinated Debt	GMTN
	Short-term	P-3	A-3	F2	-	-
Clydesdale Bank PLC	Long-term	Baa1 ⁽¹⁾ / Positive	BBB+ / Stable	A- / Rating Watch Negative	Covered Bonds, RMBS,	RCB, Lanark. Senior Unsecured established in 2019
	Short-term	P-2	A-2	F2	Money Market (CD, CP)	-
Virgin Money Holdings (UK) plc	Long-term	Baa3 / Positive	-	BBB+ / Rating Watch Negative	Senior Unsecured, Subordinated Debt	GMTN (No new issuance expected)
	Short-term	P-3	-	F2	-	-
Virgin Money plc	Long-term	Baa1 / Positive	-	A- / Rating Watch Negative	Senior Unsecured, Covered Bonds, RMBS	GMTN, RCB, Gosforth
	Short-term	P-2	-	F2	Money Market (CD, CP)	-

Note: (1) Long-term bank deposit rating.



BALANCE SHEET

£m	Mar 2019
Mortgages	60,543
SME lending	7,619
Unsecured personal lending	4,508
Total customer loans	72,670
Liquid assets and other	15,506
Other assets	1,979
Total assets	90,155
Customer deposits	61,688
Wholesale funding (excl. TFS)	11,334
TFS ⁽¹⁾	8,420
Notes in circulation	2,241
Other liabilities	1,114
Total liabilities	84,797
Equity and reserves	5,358
Liabilities and equity	90,155

Note: (1) Net of Virgin Money IFRS3 fair value adjustment



AMENDMENTS TO THE AT1 CONDITIONS

For the convenience of Noteholders, certain material differences between the Conditions and the New Conditions are set out in the table below. The information contained in the table is a summary only and should not be taken to be a complete description of the particular provision summarised – see Consent Solicitation Memorandum for full conditions

	Current Conditions	New Conditions
Issuer	Virgin Money Holdings (UK) plc	CYBG PLC
Winding-Up	The Conditions do not contain specific language addressing a Winding-Up on or after a Trigger Event	The New Conditions contain language addressing a Winding-Up on or after a Trigger Event
Definition of "Relevant Shares"	"Means ordinary share capital of the Approved Entity that constitutes equity share capital or the equivalent (or depository or other receipts representing the same) which is listed and admitted to trading on a Regulated Market"	"Means ordinary shares in the capital of a body corporate that constitutes equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on a Regulated Market provided that ordinary shares shall not be Relevant Shares if the conversion, or possible conversion, of the Securities into those ordinary shares would have an effect of the kind referred to in either of paragraphs (b) or (c) of Condition 7.4 on the Issuer (an "Adverse Tax Effect") and such Adverse Tax Effect arises as a consequence of the fact that the Notes would not be "hybrid capital instruments" for the purposes of section 475C of the Corporation Tax Act 2009; and ordinary shares shall cease to be Relevant Shares if such ordinary shares are initially Relevant Shares, but subsequently would have an Adverse Tax Effect on or before the Conversion Date"



AMENDMENTS TO THE SENIOR CONDITIONS

For the convenience of Noteholders, certain material differences between the Conditions and the New Conditions are set out in the table below. The information contained in the table is a summary only and should not be taken to be a complete description of the particular provision summarised – see Consent Solicitation Memorandum for full conditions

	Current Conditions	New Conditions
Issuer	Virgin Money Holdings (UK) plc	CYBG PLC
Definition of "Capital Regulations"	"Means, at any time, the laws, regulations, requirements, standards, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions of either (i) the Supervisory Authority and/or (ii) any other national or European authority, in each case then in effect in the United Kingdom (or in such other jurisdiction in which the relevant Issuer may be organised or domiciled) and applicable to the relevant Issuer and/or (where the Issuer is HoldCo) the HoldCo Group and/or (where the Issuer is the Bank) the Bank Group including, as at the date of this Offering Circular, CRD IV and related technical standards"	"Means, at any time, the laws, regulations, requirements, standards, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions of either (i) the Supervisory Authority and/or (ii) any other national or European authority, in each case then in effect in the United Kingdom (or in such other jurisdiction in which the relevant Issuer may be organised or domiciled) and applicable to the relevant Issuer and/or (where the Issuer is HoldCo) the HoldCo Group and/or (where the Issuer is the Bank) the Bank Group and/or (where the Issuer is CYBG) the CYBG Group, including, as at the date of this Offering Circular, CRD IV and related technical standards"
Definition of "Group"	"Means (i) in respect of HoldCo, the HoldCo Group, and (ii) in respect of the Bank, the Bank Group"	"Means (i) in respect of HoldCo, the HoldCo Group, and (ii) in respect of the Bank, the Bank Group, and (iii) in respect of CYBG, the CYBG Group"

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