30 July 2019

CYBG PLC: Third Quarter 2019 Trading Update

CYBG PLC ("CYBG" or the "Group") confirms that trading in the nine months to 30 June 2019 was in line with the Board's expectations and good progress continues to be made with the Virgin Money integration programme.

Note: this trading update is on a pro forma basis as if Virgin Money was acquired on 01-Oct-17 (actual completion 15-Oct-18)

Disciplined asset and deposit growth in line with the Group's strategy

- Q3 Mortgage book reduction of 0.2% to £60.4bn due to higher redemptions in the period and lower new business volumes in line with the Group's optimisation strategy
- Q3 Business lending growth of 0.5% to £7.7bn with lower new business volumes in a subdued market, but with a strong Q4 pipeline of new lending
- Q3 Personal lending growth of 5.7% to £4.8bn primarily due to strong credit card growth
- Customer deposit growth in Q3 of 1.8% to £62.8bn with strong relationship deposit growth in our Business and Personal divisions
- Stable net cost of risk of 21bps (9 months annualised) with asset quality resilient

Q3 NIM of 168bps (9 months annualised)

- As expected, NIM of 168bps was 3bps lower compared to H1-19 due to the re-financing impact of a large volume of mortgage redemptions in Q3
- FY19 NIM is expected to be at the lower-end of the 165-170bps guidance range

Integration programme continues at pace

- Our integration programme continues to progress well with c.£45m of annual run-rate cost synergies now delivered and we remain on track for FSMA Part VII completion in October

Group remains strongly capitalised with a CET1 ratio of 14.6%

- The Group received its updated firm-specific capital requirement from the PRA in July, which confirmed that our Pillar 2A CET1 requirement had reduced from 3.6% to 3.0%
- PPI complaint costs were broadly in line with provision assumptions
- The Group, in line with the rest of the industry, has seen a recent increase in PPI information requests – the uphold rates on these are very low, however it is not possible at this stage to determine how many valid complaints will materialise – the Group will determine its final costs following the complaint deadline on 29 August

David Duffy, Chief Executive Officer of CYBG PLC commented:

"The Group continues to deliver on its targets with another quarter of resilient performance including disciplined lending and deposit growth in line with our recently announced strategy.

"Our net interest margin is tracking as expected and we delivered further cost efficiencies in the period – even with the twin pressures of Brexit and the highly competitive mortgage market, we remain on track to deliver full year performance in line with our guidance.

"At our Capital Markets Day in June we set out our plans to disrupt the status quo with new propositions, as well as updated financial, customer service and market share targets. Our ongoing performance and refreshed strategy under the Virgin Money brand underlines the opportunity we have to create a new force in consumer and business banking."

Pioneering growth

(£bn)	30 Sep-18	31 Mar-19	30 Jun-19	Q3 growth	YTD annualised
Mortgages	*59.1*	*60.5*	*60.4*	*(0.2)%*	*3.0%*
Business	*7.5*	*7.6*	*7.7*	*0.5%*	*2.1%*
Personal	*4.3*	*4.5*	*4.8*	*5.7%*	*13.6%*
Customer lending	70.9	72.7	72.8	0.2%	3.5%
Customer deposits	61.0	61.7	62.8	1.8%	4.0%
o/w relationship deposits	*19.9*	*20.3*	*20.9*	*3.1%*	*6.7%*

Mortgages saw a small reduction in balances in Q3, consistent with our strategy to optimise for value. Q3 originations were lower than Q2 but at better margins as pricing stabilised. As previously guided, there is a large volume of redemptions in the second half of 2019 which contributed to the contraction in balances.

Business balance growth of 0.5% in the quarter was lower than expected due to slower completion of larger facilities in a subdued market. However, the pipeline for Q4 is strong.

Unsecured lending had a strong quarter, with continuing growth across our credit card propositions and a strong performance in personal loan originations, benefitting from improvements to the digital proposition and customer journey implemented earlier this year.

Good deposit growth of 1.8% in Q3 with our relationship deposit offerings attracting £0.6bn in additional balances driven by particularly strong growth in business current accounts and linked savings balances.

Following receipt of all regulatory approvals and conclusion of contractual negotiations, the Investments & Pensions JV with Aberdeen Standard Investments is expected to complete on 31 July 2019. In Q4 the Group will recognise an estimated gain on sale of c.£35m from the disposal of c.50% of its interest in Virgin Money Unit Trust Managers Limited.

Super straightforward efficiency

The integration programme is proceeding well and we remain on track for completion of the FSMA Part VII process in October 2019. All re-branding and other integration plan timings remain in line with those communicated at the Capital Markets Day.

We continue to progress towards our target for c.£200m of net cost savings by FY22 and as at Q3 had realised c.£45m of annual run-rate savings. We remain on track to deliver FY19 underlying costs of <£950m.

A further c.£65m of exceptional charges were incurred during Q3 including c.£35m of restructuring costs and c.£25m of acquisition accounting charges, in line with guidance.

Discipline and sustainability

Asset quality remains resilient with an annualised net cost of risk of 21bps in the first nine months, in line with expectations and reflecting the trends observed in our interim results.

The Group's CET1 ratio increased slightly to 14.6% at 30 June 2019 with lower asset growth in Q3. Following completion of the Group's ICAAP the PRA has updated the capital requirements for the Group. The Pillar 2A CET1 requirement has been reduced from 3.6% to 3.0% and the Group's fully-loaded CRD IV minimum CET1 capital requirement is now 60bps lower at 11.0%. The Group's target CET1 operating level of c.13% is reaffirmed.

PPI complaint costs were broadly in line with provision assumptions. In recent weeks the Group, consistent with the rest of the industry, has seen a significant increase in PPI information requests ahead of the 29 August complaint deadline. The uphold rate in relation to these is very low, however it is not possible at this stage to determine how many valid complaints will materialise. The Group will determine its final costs following the 29 August complaint deadline and update at its FY results in November.

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Basis of preparation

CYBG's acquisition of Virgin Money completed on 15 October 2018. The financial performance and business commentary provided in the trading update above have been prepared on the basis that the combination with Virgin Money had been in effect since 01 October 2017.

Forward looking statements

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