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**FOR IMMEDIATE RELEASE**

18 JUNE 2018

**RECOMMENDED ALL-SHARE OFFER  
FOR VIRGIN MONEY HOLDINGS (UK) PLC  
BY  
CYBG PLC**

**Summary**

- The Boards of CYBG PLC ("**CYBG**") and Virgin Money Holdings (UK) plc ("**Virgin Money**") are pleased to announce that they have agreed the terms of a recommended all-share offer to be made by CYBG for Virgin Money (the "**Offer**") to create the UK's first true national banking competitor to the status quo.
- Under the terms of the Offer, Virgin Money Shareholders will receive:

**1.2125 New CYBG Shares in exchange for each Virgin Money Share**

- Based on the Closing Price of 306 pence per CYBG Share on 15 June 2018 (being the last Business Day before the date of this Announcement), the Offer values each Virgin Money Share at 371 pence and Virgin Money's ordinary shares on a fully diluted basis at approximately £1.7 billion, representing a premium of:
  - 19 per cent. to the Closing Price of 312 pence per Virgin Money Share on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period); and
  - 35 per cent. to the volume weighted average price of 276 pence per Virgin Money Share for the three-month period ended 4 May 2018.

- Following completion of the Offer, Virgin Money Shareholders will own approximately 38 per cent. of the Combined Group (on a fully diluted basis).
- The Offer is expected to be effected by means of a court-sanctioned scheme of arrangement between Virgin Money and the Virgin Money Shareholders under Part 26 of the Companies Act 2006, although CYBG reserves the right to effect the Offer by way of a Takeover Offer.
- If Virgin Money announces, declares or pays any dividend or any other distribution to Virgin Money Shareholders on or after the date of this Announcement, CYBG reserves the right to make an equivalent reduction in the terms of the Offer. This right will not be invoked in respect of a dividend of up to 2.3 pence per Virgin Money Share in the event that such a dividend is declared by the Virgin Money Directors and paid in respect of Virgin Money's six month interim period ending 30 June 2018.

### **Strategic and Financial Rationale for the Offer**

- The CYBG Directors believe the combination of CYBG and Virgin Money (the "**Combination**") will bring together the complementary strengths of two successful challenger banks to create the UK's first true national competitor to the large incumbent banks. The Combination will offer retail and SME customers an enhanced alternative to the status quo. The Combined Group will have the capabilities, scale and national presence required to lead the way in the future of UK banking, with a full-service product offering across retail and SME, established and innovative technology and the iconic Virgin Money national brand that is underpinned by a strong customer service culture.
- The CYBG Directors believe the Combination has a strong strategic and financial rationale as described below, creating a compelling opportunity for both sets of shareholders:

#### *Strategic*

- *Scale and national presence:* Creation of a national competitor with scale and an attractive service and product offering that will be available digitally and supported by a national branch network;
- *Full-service offering:* Greater breadth of retail and SME propositions and products offered to the Combined Group's enlarged customer base, with a strong PCA and BCA offering that provides enhanced opportunities to deepen multi-product customer relationships;
- *Iconic national brand and customer-focused cultures:* Virgin Money's iconic national brand and both CYBG's and Virgin Money's complementary customer-focused cultures and award-winning customer service provide the foundations for strong, digitally-led customer acquisition and retention across the UK;
- *Innovative and modern technology:* CYBG's established, proven, scalable and resilient Open Banking-enabled technology platform provides a strong foundation for further growth and enhanced services and propositions for customers, particularly when coupled with Virgin Money's brand; and

- *Low-complexity integration plan and management strength:* Execution risk will be reduced by a detailed, phased migration and re-branding plan, to be delivered by a highly capable team drawn from two organisations with strong track records in large-scale transformation, and further mitigated by the relatively low complexity of the Virgin Money product offering, and in particular the small number of Virgin Money personal current accounts.

The CYBG Directors believe these capabilities provide the Combined Group with the attributes it needs to be a leading force in the Open Banking environment, disrupting the status quo and championing customer service excellence in financial services.

### *Financial*

- *Significant synergy and value creation potential:* The Combination is expected to generate £120 million of annual pre-tax cost synergies, run rate by the end of the financial year ending 30 September 2021. CYBG also expects additional value creation through avoidance of planned future Virgin Money digital bank running costs, and revenue synergies and funding synergies over time, which have not been quantified for reporting under the Takeover Code;
- *Diversified, low-risk balance sheet:* The Combination brings together two low-risk balance sheets and creates a broader-based, less concentrated combined mortgage and unsecured lending portfolio, while retaining a diversified funding model and a clear funding strategy with further opportunities to extend CYBG's personal and business account offering across the Virgin Money customer base;
- *Strong pro forma capital position:* The Combined Group is expected to have a pro forma day one CET1 ratio in excess of 12 per cent. and to retain a significant surplus to regulatory capital minimum requirements with further upside potential from near-term capital optimisation initiatives, including CYBG's ongoing application for mortgage IRB accreditation and Virgin Money's stated objective to reduce its mortgage risk weighting;
- *Reinforces delivery of existing financial targets:* CYBG continues to expect to perform strongly against its existing medium-term guidance, including meeting its sustainable growth ambition, being at the lower end of its cost income ratio target range, and delivering its guidance for a double digit return on tangible equity in FY19;
- *Earnings accretive to all shareholders:* The Combination is expected to be materially accretive for both sets of shareholders on an earnings per share basis once full cost synergies have been delivered; and
- *Strong capital generation accelerates progressive dividend ambitions:* The Combined Group's enhanced returns potential will support investment to drive growth, fund the delivery of the cost synergies, and support sustainable asset growth, leading to greater excess capital generation. This will accelerate both CYBG and Virgin Money's progressive dividend ambitions.

## Arrangements with Virgin Group

- The CYBG Directors believe that the use of Virgin Money's iconic national brand combined with CYBG's customer-centric propositions will drive further growth opportunities for the Combined Group.
- Accordingly, CYBG has entered into an agreement with Virgin Enterprises Limited ("**Virgin Enterprises**") in relation to the use, conditional on completion of the Offer, of the "Virgin Money" brand.
- The key terms of the Brand Licence Agreement include (in summary):
  - An exclusive, perpetual, royalty-bearing licence for the CYBG Group to use the "Virgin Money" brand for financial services in respect of retail, SME and corporate customers in the UK;
  - A fixed yearly minimum royalty payable by CYBG, which increases from £12 million in the first year following the First Quarter Date up to £15 million in the fourth year following the First Quarter Date, plus an additional yearly royalty (calculated by reference to incremental CYBG Group turnover at a rate of one per cent.) beginning in the fifth or, if the turnover of the CYBG Group reaches a threshold amount, the fourth year;
  - Virgin Enterprises is entitled to nominate one person to be a non-executive director of CYBG; and
  - Virgin Enterprises has termination rights for cause and insolvency of CYBG, in case of serious brand damage, and in respect of certain changes of control of CYBG. In certain circumstances, the termination right for cause (if exercised) entitles Virgin Enterprises to a termination fee in lieu of a damages claim. CYBG has termination rights covering serious brand damage and insolvency of Virgin Enterprises. Upon a change of control of CYBG, the Brand Licence Agreement may be terminated at the option of CYBG upon payment of a termination fee and if not so terminated, the acquirer of CYBG is required to guarantee certain of CYBG's obligations under the Brand Licence Agreement.

Further details of the Brand Licence Agreement are set out in paragraph 3 of this Announcement.

- The Brand Licence Agreement is conditional upon the passing of an ordinary resolution of the Independent Virgin Money Shareholders (which requires more than 50 per cent. of the votes cast by Independent Virgin Money Shareholders on a poll to be cast in favour) to approve the Brand Licence Agreement (the "**Brand Licence Resolution**"). The Brand Licence Agreement is also conditional upon completion of the Offer.
- Virgin Holdings has also provided an irrevocable undertaking to support the Offer in respect of its holding of 155,120,454 Virgin Money Shares (representing approximately 34.8 per cent. of the issued ordinary share capital of Virgin Money as at 15 June 2018, being the last Business Day before the date of this Announcement).

Details of this undertaking together with the circumstances in which it ceases to be binding are set out in Appendix 3 of this Announcement.

### **The Combined Group**

- Following completion of the Offer:
  - Jim Pettigrew, Chairman of CYBG, David Duffy, CEO of CYBG and Ian Smith, CFO of CYBG will retain their current positions in the Combined Group;
  - Jayne-Anne Gadhia, CEO of Virgin Money has been in her current role with Virgin Money for over 10 years. She brings a wealth of experience in successfully leading customer-facing banking businesses and delivering the Virgin Money brand to customers. She has agreed, in principle, to support the Combined Group as a senior adviser to the CEO (in a consultancy role) for a period of time beyond completion of the Offer, on terms to be agreed;
  - It has been agreed that two of the non-executive directors currently on the Virgin Money Board, as well as one non-executive director nominated by Virgin Enterprises pursuant to its rights under the Brand Licence Agreement, will become members of the CYBG Board on completion of the Offer, subject to the usual regulatory approvals;
  - CYBG's shares will continue to have their primary listing on the Official List and will continue to trade on the London Stock Exchange. CYBG will continue to have a secondary listing on, and CHESS Depositary Interests representing CYBG Shares will continue to trade on, the Australian Securities Exchange; and
  - The registered offices of CYBG and Virgin Money will remain in England following completion of the Offer, and the Combined Group will be headquartered in Glasgow, Scotland.

### **Recommendations and irrevocable undertakings**

- For the purpose of considering the Offer, Virgin Money constituted a committee of independent directors, comprising all of the executive and non-executive directors of Virgin Money other than Amy Stirling and Patrick McCall who represent Virgin Holdings and Virgin Enterprises, respectively (the "**Independent Virgin Money Directors**").
- The Independent Virgin Money Directors, who have been so advised by Goldman Sachs as to the financial terms of the Offer, consider the terms of the Offer to be fair and reasonable. In providing advice to the Independent Virgin Money Directors, Goldman Sachs has taken into account the commercial assessments of the Independent Virgin Money Directors.
- The Independent Virgin Money Directors intend unanimously to recommend that the Virgin Money Shareholders vote in favour of the resolutions to be proposed at the Virgin Money Meetings, as the Independent Virgin Money Directors who hold Virgin Money Shares have irrevocably undertaken to do in respect of their own beneficial

holdings totalling 2,612,309 Virgin Money Shares (representing approximately 0.586 per cent. of the issued ordinary share capital of Virgin Money as at 15 June 2018, being the last Business Day before the date of this Announcement).

- The Independent Virgin Money Directors also intend unanimously to recommend that the Independent Virgin Money Shareholders vote in favour of the Brand Licence Resolution. The Brand Licence Resolution is a non-waivable condition to the Offer and if it is not passed the Offer will lapse and the transaction will not proceed to completion. The terms of the Brand Licence Agreement are considered by Goldman Sachs, Virgin Money's financial adviser, to be fair and reasonable. In forming this view, Goldman Sachs has taken into account the commercial assessments of the Independent Virgin Money Directors.
- CYBG has received an irrevocable undertaking to vote in favour of the Scheme at the Court Meeting and the Resolutions<sup>1</sup> to be proposed at the Virgin Money General Meeting from Virgin Holdings in respect of 155,120,454 Virgin Money Shares (representing approximately 34.8 per cent. of the issued ordinary share capital of Virgin Money as at 15 June 2018, being the last Business Day before the date of this Announcement).
- Due to its size, the Offer requires the approval of the CYBG Shareholders for the purposes of the Listing Rules. Accordingly, the Offer will be conditional on the approval of the CYBG Shareholders at the CYBG General Meeting.
- The CYBG Board considers the Offer to be in the best interests of CYBG and the CYBG Shareholders as a whole and intends unanimously to recommend that CYBG Shareholders vote in favour of the resolutions to approve the Offer to be proposed at the CYBG General Meeting, as those CYBG Directors who hold CYBG Shares have irrevocably undertaken to do in respect of their own beneficial holdings totalling 476,988 CYBG Shares (representing approximately 0.054 per cent. of the issued ordinary share capital of CYBG as at 15 June 2018, being the last Business Day before the date of this Announcement).
- The CYBG Board has received financial advice from Morgan Stanley and Deutsche Bank in relation to the Offer. In providing their advice to the CYBG Board, Morgan Stanley and Deutsche Bank have taken into account the commercial assessments of the CYBG Board.

## **General**

- It is intended that the Offer will be implemented by way of a court-sanctioned scheme of arrangement between Virgin Money and the Virgin Money Shareholders under Part 26 of the Companies Act 2006, further details of which are contained in paragraph 17 of this Announcement. However, CYBG reserves the right to implement the Offer by way of a Takeover Offer, subject to the Panel's consent and the terms of the Co-operation Agreement.

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<sup>1</sup> Other than the Brand Licence Resolution in respect of which Virgin Holdings is conflicted.

- The Offer is subject to, among other things, approvals of the CYBG Shareholders and the relevant Virgin Money Shareholders (including in respect of the Brand Licence Resolution) and the receipt of certain regulatory clearances. The Offer is also subject to the other Conditions set out in Appendix 1 to this Announcement, and to the full terms and conditions to be set out in the Scheme Document.
- The Scheme Document will include full details of the Scheme, together with notices of the Court Meeting and the Virgin Money General Meeting and the expected timetable, and will specify the actions to be taken by the Virgin Money Shareholders. Subject to the Scheme Document being posted to Virgin Money Shareholders as soon as practicable following the date of this Announcement (subject to the availability of the Court to approve the Scheme Document for posting), the Panel has consented to a posting date later than 28 days following this Announcement.
- It is expected that the Circular, containing details of the Offer and notice of the CYBG General Meeting, will be posted to CYBG Shareholders at or around the same time as the Scheme Document is posted to the Virgin Money Shareholders, with the CYBG General Meeting held at or around the same time as the Virgin Money Meetings.
- It is expected that the Prospectus, containing information about the CYBG Group, the Virgin Money Group and the New CYBG Shares, will be published at or around the same time as the Scheme Document is posted to the Virgin Money Shareholders.
- The Offer is expected to complete during calendar Q4 of 2018, subject to the satisfaction (or, where applicable, waiver) of the Conditions set out in Appendix 1 to this Announcement.

Commenting on the Offer, Jim Pettigrew, Chairman of CYBG, said:

*"I am delighted we are announcing the combination of the CYBG and Virgin Money businesses. It is clear to us that the Combined Group can transform the UK banking landscape and offer real benefits to customers and communities throughout the UK.*

*Since our IPO in 2016, the CYBG Board and leadership team has established CYBG as a strong and sustainable business, with a track record of delivery and the credentials to deliver a transformational combination with Virgin Money.*

*Our recommended offer can deliver real value for all shareholders and create a powerful force in UK banking."*

Commenting on the Offer, David Duffy, CEO of CYBG, said:

*"The combination of CYBG and Virgin Money will create the first true national competitor to the status quo in UK banking, offering a genuine alternative for consumers and small businesses.*

*By combining two of the UK's leading challenger banks, we will create a national, full-service bank with the capabilities needed to compete effectively with the large incumbent banks. We are bringing together CYBG's 175-year heritage in serving retail and SME customers and advanced digital technology, with the iconic Virgin Money brand and consumer champion credentials.*

*Together we will serve around six million customers, with the scale, capabilities and financial muscle to disrupt the status quo – and with a clear ambition to provide our customers with the best service in the UK.*

*CYBG and Virgin Money have similar values, with strong roots in our regional heartlands and a shared vision for how the Combined Group can be a leading force in the banking model of the future, whilst maintaining our strong people-focused values. I am hugely positive about what we can achieve together with the talent that is available on both sides.*

*The strategic rationale is clear and offers both sets of shareholders real value, material earnings accretion, and enhanced capital generation for the benefit of all shareholders, together with both firms' customers, colleagues and local communities."*

Commenting on the Offer, Jayne-Anne Gadhia, CEO of Virgin Money, said:

*"When Virgin Money<sup>2</sup> was established in financial services in 1995, we vowed to change the world of banking for good.*

*We were the first UK financial services company to offer investment products directly to customers. We transformed the mortgage market and, as a result, saved customers hundreds of millions of pounds by introducing daily mortgage interest calculations. In January 2012 we successfully acquired Northern Rock and built a broader business from the solid foundations and wonderful people of the North East of England.*

*We aim to offer good value to customers, treat employees well, make a positive contribution to society and create value for shareholders. Since January 2012 we have more than doubled our customer lending and delivered strong and growing profitability. There are now just over 3,200 Virgin Money colleagues serving 3.4 million customers.*

*Since our IPO in November 2014, we have delivered against our strategic and financial objectives, demonstrating balanced organic growth while maintaining our responsible approach to lending. The operating environment since our IPO has presented many challenges and we have been delighted by how our colleagues have responded. Virgin Money's customer focus and nimble approach to distribution and pricing, coupled with a prudent focus on cost management and asset quality, have enabled us to drive strong returns for shareholders.*

*Our intention has always been to make everyone better off.*

*The Offer reflects confidence in our strategy, our track record of delivery and the complementary strengths of the two businesses. The combination of Virgin Money with CYBG will have greater scale to challenge the big banks. It will also accelerate the delivery of our strategic objectives, particularly the expansion of the products we offer to customers.*

*I am especially pleased that we have received a number of important commitments from CYBG. The Virgin Money Foundation will continue to contribute to essential programmes in the North East and beyond. We have obtained assurances from CYBG regarding our employees (including a commitment to leverage the best talent from both CYBG and Virgin Money) and our Gosforth headquarters. The Combined Group will remain a committed*

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<sup>2</sup> At the time "Virgin Direct".

*voice behind the Women in Finance Charter as well as working to reduce the gender pay gap.*

*This is a compelling deal for our shareholders, that accelerates value delivery and represents the beginning of the next chapter of the Virgin Money story."*

**This summary should be read in conjunction with the following Announcement and the Appendices. The conditions to, and certain further terms of, the Offer are set out in Appendix 1. The bases and sources for certain financial information contained in this Announcement are set out in Appendix 2. Details of undertakings received by CYBG and given by the CYBG Directors are set out in Appendix 3. Information relating to the anticipated quantified financial benefits of the Combination is set out in Appendix 4. Certain definitions and terms used in this Announcement are set out in Appendix 5.**

**For the purposes of Rule 28 of the Takeover Code, quantified financial benefits statements contained in this Announcement are the responsibility of CYBG and the CYBG Directors. Appendix 4 sets out the anticipated quantified financial benefits statements relating to cost savings and synergies arising out of the Combination and provides underlying information and bases of belief. Appendix 4 also includes reports from CYBG's reporting accountant, Deloitte, and its joint financial advisers, Morgan Stanley and Deutsche Bank, in connection with anticipated quantified financial benefits statements, as required pursuant to Rule 28.1(a) of the Takeover Code, and provides underlying information and bases for the accountant's and advisers' respective reports. Each of Deloitte, Morgan Stanley and Deutsche Bank has given and not withdrawn its consent to the publication of its report in this Announcement in the form and context in which it is included.**

#### **Analyst and investor presentation**

CYBG will host a presentation for research analysts and investors at Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB and a conference call and webcast at 8:30 a.m. (UK time) and 5:30 p.m. (Sydney time) today (18 June 2018) to discuss the Offer.

To participate in this conference call, please use the following access details:

Phone Number: +61 (0)1800 092 439 (Australia); +852 (0)800 966 027 (Hong Kong); +44 (0)8445 718 892 (United Kingdom); +1 (0)8669 661 396 (United States) and +44 (0)2071 928 000 (Standard International Dial-in).

Participant Code: 4335049

To participate in the webcast, please use the following link:

Webcast Link: <https://edge.media-server.com/m6/p/fmbf2zfn>

Information on how to access the webcast of this presentation can be found at [www.cybg.com/cybg-update/](http://www.cybg.com/cybg-update/) and <https://uk.virginmoney.com/virgin/investor-relations/offer-from-cybg/>.

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Clifford Chance LLP is retained as legal adviser to CYBG. Allen & Overy LLP is retained as legal adviser to Virgin Money.

### ***Further information***

*This Announcement is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Offer or otherwise. The Offer will be made solely through the Scheme Document, which will contain the full terms and conditions of the Offer, including details of how to vote in respect of the Offer. Any vote or other response to the Offer should be made only on the basis of the information in the Scheme Document.*

*CYBG will prepare the Circular to be distributed to CYBG Shareholders and will also publish the Prospectus containing information on the New CYBG Shares and the Combined Group. CYBG urges Virgin Money Shareholders to read the Scheme Document and the Prospectus carefully when they become available because they will contain important information in relation to the Offer, the New CYBG Shares and the Combined Group. CYBG urges CYBG Shareholders to read the Circular and the Prospectus carefully when they become available. Any vote in respect of the resolutions to be proposed at the Virgin Money Meetings or the CYBG General Meeting to approve the Offer, the Scheme, the Brand Licence Resolution or related matters, should be made only on the basis of the information contained in the Scheme Document, the Prospectus and, in the case of CYBG Shareholders, the Circular.*

*The New CYBG Shares to be issued pursuant to the Offer are not being offered to the public by means of this Announcement.*

*This Announcement does not constitute a prospectus or prospectus equivalent document.*

### ***Important notices relating to financial advisers***

*Morgan Stanley & Co. International plc ("**Morgan Stanley**") which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK is acting as financial adviser exclusively for CYBG and no one else in connection with the matters set out in this Announcement. In connection with such matters, Morgan Stanley, its affiliates and their respective directors,*

*officers, employees and agents will not regard any other person as their client, nor will they be responsible to any other person for providing the protections afforded to their clients or for providing advice in connection with the contents of this Announcement or any other matter referred to herein.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and FCA. Details about the extent of its authorisation and regulation by the Prudential Regulation Authority, and regulation by the FCA, are available on request or from [www.db.com/en/content/eu\\_disclosures.htm](http://www.db.com/en/content/eu_disclosures.htm). Deutsche Bank AG, acting through its London branch ("**Deutsche Bank**") is acting as financial adviser to CYBG and no other person in connection with this Announcement or any of its contents. Deutsche Bank will not be responsible to any person other than CYBG for providing any of the protections afforded to clients of Deutsche Bank, nor for providing any advice in relation to the matters set out in this Announcement. Neither Deutsche Bank nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Deutsche Bank in connection with the matters set out in this Announcement, any statement contained herein or otherwise.*

*Macquarie Capital (Europe) Limited ("**Macquarie**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting for CYBG and no-one else in connection with the matters set out in this Announcement and will not be responsible to anyone other than CYBG for providing the protections afforded to customers of Macquarie or for providing advice in relation to the matters set out in this Announcement.*

*Goldman Sachs International ("**Goldman Sachs**"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for Virgin Money and no one else in connection with the Offer and will not be responsible to anyone other than Virgin Money for providing the protections afforded to clients of Goldman Sachs, or for giving advice in connection with the Offer or any matter or arrangement referred to in this Announcement.*

*Citigroup Global Markets Limited ("**Citi**"), which is authorised by the Prudential Regulation Authority and regulated in the UK by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Virgin Money and no one else in connection with the matters set out in this Announcement and will not regard any other person as its client in relation to the matters in this Announcement and will not be responsible to anyone other than Virgin Money for providing the protections afforded to clients of Citi nor for providing advice in relation to any matter referred to herein.*

### **Restricted Jurisdictions**

*This Announcement has been prepared in accordance with English law, the Takeover Code, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules and information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England.*

*Copies of this Announcement and any formal documentation relating to the Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Offer is implemented by way of a Takeover Offer (unless otherwise determined by CYBG and permitted by applicable law and regulation), the Takeover Offer may not be communicated, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce of, or any facilities of a national, state or securities exchange of, any Restricted Jurisdiction and the Takeover Offer may not be capable of acceptance by any such use, means, instrumentality or otherwise.*

*Further details in relation to Virgin Money Shareholders in overseas jurisdictions will be contained in the Scheme Document.*

### ***Forward-looking statements***

*This Announcement (including information incorporated by reference in this Announcement), oral statements made regarding the Offer, and other information published by CYBG and Virgin Money contain statements which are, or may be deemed to be, "forward-looking statements". All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on assumptions, expectations, valuations, targets, estimates, forecasts and projections of CYBG and Virgin Money about future events, and are therefore subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied by the forward-looking statements. The forward-looking statements contained in this Announcement include statements relating to the expected effects of the Offer on the CYBG Group, the Virgin Money Group and the Combined Group, the expected timing and scope of the Offer and other statements other than historical facts. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "budget", "targets", "aims", "scheduled", "estimates", "forecast", "intends", "anticipates", "seeks", "prospects", "potential", "possible", "assume" or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Although CYBG and Virgin Money believe that the expectations reflected in such forward-looking statements are reasonable, CYBG and Virgin Money can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risks (known and unknown) and uncertainties (and other factors that are in many cases beyond the control of CYBG and/or Virgin Money) because they relate to events and depend on circumstances that may or may not occur in the future.*

*There are a number of factors that could affect the future operations of the CYBG Group, the Virgin Money Group and/or the Combined Group and that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include the satisfaction (or, where permitted, waiver) of the Conditions, as well as additional factors, such as: domestic and global business and economic conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, industry trends, competition, changes in government and regulation, changes in the policies and actions of governments and/or regulatory authorities (including changes related to capital and tax), changes in political and economic stability (including*

*exposures to terrorist activities, the repercussions of the UK's referendum vote to leave the European Union (EU), the UK's exit from the EU (including any changes to the UK currency), Eurozone instability, any referendum on Scottish independence), disruption in business operations due to reorganisation activities, interest rate, inflation, deflation and currency fluctuations, the timing impact and other uncertainties of future or planned acquisitions or disposals or offers, the inability of the Combined Group to realise successfully any anticipated synergy benefits when the Offer is implemented (including changes to the board and/or employee composition of the Combined Group), the inability of the CYBG Group to integrate successfully the Virgin Money Group's operations and programmes when the Offer is implemented, the Combined Group incurring and/or experiencing unanticipated costs and/or delays (including IT system failures, cyber-crime, fraud and pension scheme liabilities), or difficulties relating to the Offer when the Offer is implemented. In particular, the capital position of the Combined Group is subject to confirmation of the regulatory treatment of the existing capital instruments issued by CYBG and Virgin Money post completion of the Offer, which is dependent on the final legal structure of the Combined Group. Other unknown or unpredictable factors could affect future operations and/or cause actual results to differ materially from those in the forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors.*

*Each forward-looking statement speaks only as of the date of this Announcement. Neither CYBG Group nor Virgin Money Group, nor any of their respective associates or directors, officers or advisers, provides any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur. Forward looking statements involve inherent risks and uncertainties. All forward-looking statements contained in this Announcement are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers are cautioned not to place undue reliance on these forward-looking statements. Other than in accordance with their legal or regulatory obligations (including under the Takeover Code, the Listing Rules and the Disclosure Guidance and Transparency Rules), neither the CYBG Group nor the Virgin Money Group is under or undertakes any obligation, and each of the foregoing expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

### ***No profit forecasts or estimates***

*Nothing in this Announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings per CYBG Share or Virgin Money Share for the current or future financial years, will necessarily match or exceed the historical published earnings per CYBG Share or Virgin Money Share.*

### ***Quantified financial benefits***

*Statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither the quantified financial benefit statements nor any other statement in this Announcement should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full year following implementation of the Offer, or in any subsequent period,*

would necessarily match or be greater than or be less than those of CYBG or Virgin Money for the relevant preceding financial period or any other period.

### ***Additional information for US investors***

*US holders of Virgin Money Shares should note that the Offer relates to the securities of a UK company with a listing on the London Stock Exchange and is proposed to be implemented pursuant to a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Offer will be subject to UK procedural and disclosure requirements and practices applicable to a scheme of arrangement involving a target company in England listed on the London Stock Exchange, which are different from the disclosure requirements of the US tender offer and proxy solicitation rules. The financial information included in this Announcement and other documentation related to the Offer has been or will have been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If CYBG exercises its right, in the circumstances provided for in this Announcement, to implement the Offer by way of a Takeover Offer, such Takeover Offer will only be made in the United States if an exemption from the registration requirements of the US Securities Act is available.*

*The New CYBG Shares to be issued pursuant to the Offer have not been registered under the US Securities Act or under any laws or with any securities regulatory authority of any state, district or other jurisdiction, of the United States, and may only be offered or sold in the United States in reliance on an exemption from registration requirements of the US Securities Act including in the case of the proposed scheme of arrangement, Section 3(a)(10) thereunder.*

*Neither the SEC nor any US state securities commission has approved or disapproved of the New CYBG Shares to be issued in connection with the Offer or determined if this Announcement is accurate or complete. Any representation to the contrary is a criminal offence in the United States.*

*It may be difficult for US holders of Virgin Money Shares to enforce their rights and claims arising out of the US federal securities laws, since CYBG and Virgin Money are located in countries other than the United States, and some or all of their officers and directors may be residents of countries other than the United States. US holders of Virgin Money Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.*

### ***Disclosure requirements of the Takeover Code***

*Under Rule 8.3(a) of the Takeover Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the Announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe*

for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm on the 10th business day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

### **Publication on a website**

This Announcement and the documents required to be published pursuant to Rule 26 of the Takeover Code will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on CYBG's website at [www.cybg.com/cybg-update/](http://www.cybg.com/cybg-update/) and on Virgin Money's website at <https://uk.virginmoney.com/virgin/investor-relations/offer-from-cybg/> promptly and in any event by no later than 12 noon on 19 June 2018. The content of the websites referred to in this Announcement is not incorporated into and does not form part of this Announcement.

### **Request for hard copies**

CYBG Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source) by

*contacting CYBG's registrars, Computershare Investor Services PLC at The Pavilions, Bridgewater Road, Bristol, BS99 6ZZ with an address to which the hard copy may be sent.*

*CYBG Shareholders may, subject to applicable securities laws, also request that all future documents, Announcements and information to be sent in relation to the Offer should be in hard copy form.*

*Virgin Money Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source) by contacting Virgin Money's registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA with an address to which the hard copy may be sent. Virgin Money Shareholders may, subject to applicable securities laws, also request that all future documents, Announcements and information to be sent in relation to the Offer should be in hard copy form.*

*If you are in any doubt about the contents of this Announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

*Please be aware that addresses, electronic addresses and certain information provided by Virgin Money Shareholders, persons with information rights and other relevant persons for the receipt of communications from Virgin Money may be provided to CYBG during the offer period (as defined in the Takeover Code) as required under section 4 of Appendix 4 to the Takeover Code.*

### ***Rounding***

*Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.*

### ***Registration***

*CYBG is registered in England and Wales (company number: 09595911) and as a foreign company in Australia (ARBN 609 948 281) and has its registered office at 20 Merrion Way, Leeds, West Yorkshire LS2 8NZ.*

**THE INFORMATION CONTAINED WITHIN THIS ANNOUNCEMENT IS DEEMED BY CYBG AND VIRGIN MONEY (HOLDINGS) TO CONSTITUTE INSIDE INFORMATION AS STIPULATED UNDER THE MARKET ABUSE REGULATION NO 596/2014. UPON THE PUBLICATION OF THIS ANNOUNCEMENT VIA REGULATORY INFORMATION SERVICE, THIS INSIDE INFORMATION IS NOW CONSIDERED TO BE IN THE PUBLIC DOMAIN.**

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**FOR IMMEDIATE RELEASE**

18 JUNE 2018

**RECOMMENDED ALL-SHARE OFFER  
FOR VIRGIN MONEY HOLDINGS (UK) PLC  
BY  
CYBG PLC**

**1. Introduction**

The Boards of CYBG PLC ("**CYBG**") and Virgin Money Holdings (UK) plc ("**Virgin Money**") are pleased to announce that they have agreed the terms of a recommended all-share offer to be made by CYBG for Virgin Money (the "**Offer**") to create the UK's first true national banking competitor.

Under the terms of the Offer, which will be subject to the conditions set out below and in Appendix 1 and to the further terms to be set out in the Scheme Document, the Virgin Money Shareholders will be entitled to receive:

**1.2125 New CYBG Shares in exchange for each Virgin Money Share**

Based on the Closing Price of 306 pence per CYBG Share on 15 June 2018 (being the last Business Day before the date of this Announcement), the Offer values each Virgin Money Share at 371 pence and Virgin Money's ordinary shares on a fully diluted basis at approximately £1.7 billion, representing a premium of:

- 19 per cent. to the Closing Price of 312 pence per Virgin Money Share on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period); and

- 35 per cent. to the volume weighted average price of 276 pence per Virgin Money Share for the three-month period ended 4 May 2018.

Following completion of the Offer, Virgin Money Shareholders will own approximately 38 per cent. of the Combined Group (on a fully diluted basis).

It is intended that the Offer will be implemented by way of a court-sanctioned scheme of arrangement between Virgin Money and the Virgin Money Shareholders under Part 26 of the Companies Act 2006, although CYBG reserves the right to effect the Offer by way of a Takeover Offer (subject to the terms of the Co-operation Agreement).

If Virgin Money announces, declares or pays any dividend or any other distribution to Virgin Money Shareholders on or after the date of this Announcement, CYBG reserves the right to make an equivalent reduction in the terms of the Offer. This right will not be invoked in respect of a dividend of up to 2.3 pence per Virgin Money Share in the event that such a dividend is declared by the Virgin Money Directors and paid in respect of Virgin Money's six month interim period ending 30 June 2018.

## 2. **Background to and reasons for the Offer**

The CYBG Directors believe that the banking industry in the UK is reaching an inflection point: more and more customers are choosing to interact digitally; new entrants are looking to disrupt the industry and partner with existing players; technological change is happening at a faster pace than ever before; and the implementation of the Payment Services Directive 2 and Open Banking regulation aims to open up banking services and encourage competition. These trends are expected to transform existing bank business models in the UK, with an expected increase in partnerships and disintermediation of traditional value chains. The CYBG Directors believe that the successful banking propositions of the future will be digitally-led customer experiences supported by exceptional omni-channel service, with the winners delivering technology-enabled, customer-centric propositions that resonate with and enhance customers' lifestyles.

Recognising these underlying industry trends, the Combination will bring together the complementary strengths of two successful challenger banks to create the UK's first true national competitor to the large incumbent banks. The Combination will offer retail and SME customers an enhanced alternative to the status quo. The Combined Group will have the capabilities, scale and national presence required to lead the way in the Open Banking environment, with a full-service product offering across retail and SME, modern and innovative technology and the iconic Virgin Money national brand underpinned by a strong customer service culture.

The CYBG Board believes the Combination has a strong strategic and financial rationale as described below, creating a compelling opportunity for both sets of shareholders:

### ***Scale and national presence:***

- The combination of two of the largest challenger banks to create a national competitor of scale to the incumbent UK banks, with around six million customers, £69.5 billion customer loans, and £59.2 billion customer deposits.

- The Combined Group will benefit from national brand recognition and a complementary national branch network.

***Full-service offering:***

Retail offering:

- The Combined Group will be better positioned to serve the broader needs of the combined customer base by offering a more comprehensive range of products for retail clients, anchored on a core relationship PCA proposition, thereby deepening multi-product customer relationships as well as partnership opportunities with the wider Virgin Group.
- The Combined Group will have a complementary mix of product expertise, combining CYBG's strengths in PCAs and digital propositions, shared strengths in mortgages and Virgin Money's expertise in credit cards and digital savings. The CYBG Directors believe that the resulting omni-channel offering for both sets of customers will put the Combined Group at the forefront of customer service and convenience, with the potential to generate deeper customer relationships and higher product holdings.

SME offering:

- CYBG has a strong and long-established, full-service SME business with over £7 billion of customer loans and 200,000 customers. The Combination would accelerate the delivery of Virgin Money's current plans to build an SME business.
- In addition, as a Pool A eligible applicant for the alternative remedies package proposed by the EC and UK authorities to replace the commitment for The Royal Bank of Scotland to divest Williams & Glyn, the Combined Group will have an opportunity to accelerate the creation of a leading, digitally enabled SME proposition through a planned application to the Capability and Innovation Fund. This opportunity builds on CYBG's existing strengths and could help accelerate its ambition to deliver a differentiated SME proposition in UK banking. In addition, given CYBG's existing and substantive BCA offering, the Combined Group envisages playing a significant role in the proposed incentivised switching scheme as part of the alternative remedies package, further enhancing the Combined Group's potential to acquire new SME customers.

***Iconic national brand and customer-focused cultures:***

- Virgin is one of the most powerful and iconic brands in the UK, with 99 per cent. brand awareness.
- Under the Brand Licence Agreement, the Combined Group will have exclusive and perpetual access to use of the Virgin Money brand for financial

services in respect of retail, SME and corporate customers in the UK. Virgin Money has a leading net promoter score of +37<sup>3</sup>.

- It is envisaged that the retail brand for the Combined Group will transition to Virgin Money using a phased approach over a period of 36 months following completion of the Offer. The CYBG Directors believe that the Virgin Money brand has potential in the SME market, particularly in light of its entrepreneurial spirit. Testing of the brand with existing CYBG SME customers and the wider SME market will be undertaken to evaluate the Virgin Money brand affinity with customers and the appropriate timescale for any rebranding exercise for CYBG's SME business.
- Use of the Virgin Money brand combined with CYBG's customer-centric product range and service model is expected to lead to higher awareness, consumer interest and advocacy across the UK over time, generating higher customer acquisition and greater customer retention for the Combined Group. The wider Virgin portfolio also provides attractive opportunities for partnerships and collaboration.
- The cultures of CYBG and Virgin Money already share many common attributes: a disruptor mindset; customer-centricity; a close alignment to business strategy; and a focus on diversity and inclusion. The Combined Group offers a real opportunity to capitalise on the strengths of both cultures. Both CYBG and Virgin Money are committed to a positive working culture in which employees can thrive and share a commitment to supporting talent, flexible working and a diverse and inclusive working environment. This includes continued support for the Women in Finance charter, and a continued commitment to take action to reduce the gender pay gap of the Combined Group.
- The Combined Group will establish a unifying purpose to seek to galvanise employees under the Virgin Money brand, to maintain a culture of customer centricity as well as guiding an ethical and sustainable approach to business. This will be supported by a strong set of common values which will be embedded into all people practices. It will continue to build on CYBG's innovative approach to performance, with a focus on team rather than individual contributions.

***Innovative and modern technology:***

- CYBG has an established, proven, scalable and resilient, Open Banking-enabled technology platform which has facilitated the development of innovative services for customers such as mobile cheque clearing and account aggregation using secure, open APIs. The addition of Virgin Money's iconic national brand to this existing proposition is expected to increase customer awareness and interest in the offering.
- CYBG is in the process of migrating its retail and SME products onto its Open Banking-enabled technology platform, with retail customers already

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<sup>3</sup> As at 31 March 2018.

successfully migrated and SME customers in the process of migrating during 2018. This has provided the opportunity to test and demonstrate the scalability of the platform.

- The Combined Group will benefit in the future from CYBG's technology platform supporting all products, services and customer interactions. This will deliver business advantages in terms of flexibility, security and data insights. In addition, it will allow Virgin Money to avoid the significant investment and time required to build its own digital bank.

***Low-complexity integration plan and management strength:***

- The proposed phased migration and re-branding approach will be separated into several distinct phases aligned to transaction events that minimise the complexity to deliver and any impact on customers. This will be achieved in particular by leveraging product maturities and limiting the use of large-scale automated transfers, thereby avoiding any large migration events within the process.
- All Virgin Money products and customers will be migrated in phases over time to CYBG's robust IT platform, with the exception of credit cards where CYBG card customers will be migrated to the TSYS platform used by Virgin Money. TSYS is a modern platform with open architecture, which will be integrated with CYBG's proprietary platform.
- The nature of both businesses' portfolios reduces execution risk and provides greater optionality for integration and migration for the Combined Group. A number of options are being considered for migrating the small number of Virgin Money PCAs (approximately 100,000) including the industry standard Current Account Switching Service ("CASS"), which would eliminate the need for a single-event migration of these higher-interaction accounts. CYBG has significant experience of PCA on-boarding, including using CASS to on-board nearly 20,000 accounts in two weeks as part of its current account switching campaign in October 2017. It is expected that a significant majority of Virgin Money mortgages and cash ISAs will be migrated to CYBG platforms on renewal. Virgin Money personal and business savings accounts are expected to be migrated using an automated transfer. It is currently estimated that approximately 30 per cent. of all accounts of the Combined Group will be part of a transfer or migration process within the proposed integration plan.
- CYBG is developing a detailed plan to ensure that integration can be achieved with minimal impact on the customers and other stakeholders of the Combined Group. It is expected that the IT migration will be phased over 36 months in order to minimise execution risk with operational integration phased over a similar timeframe.
- Both CYBG and Virgin Money are organisations with a strong track record in delivering large-scale transformation. The integration delivery team will draw on this management experience and be closely supervised by David Duffy, the CEO of the Combined Group.

The CYBG Directors believe these capabilities provide the Combined Group with the attributes it needs to be a leading force in the Open Banking environment, disrupting the status quo and championing customer service in the future financial services landscape.

Furthermore, the CYBG Directors believe that successful future banking models will leverage partnerships to innovate and to bring together additional products and services that increase customer convenience. CYBG's technology platform has the capability to interact with fintech and other partners and the Combined Group will also have enhanced opportunities to link customer propositions with services, including the opportunity to partner with the wider Virgin portfolio of branded businesses.

***Significant synergy and value creation potential:***

- The CYBG Directors expect the Combined Group to generate £120 million of annual pre-tax cost synergies, run rate by the end of the financial year ending 30 September 2021. CYBG believes these synergies will deliver substantial value for all shareholders. Further detail on the quantified synergies and the costs to achieve them is given in paragraph 4 below.
- CYBG also expects additional value creation through avoidance of planned future Virgin Money digital bank running costs, revenue synergies and funding synergies over time which have not been quantified for reporting under the Takeover Code.

***Diversified, low-risk balance sheet:***

- The Combined Group will benefit from a diversified and stable funding model. This will comprise a mix of PCAs, BCAs, savings accounts and wholesale funding. The Combined Group's total customer deposit base of £59.2 billion equates to approximately 77 per cent. of total funding, with approximately 30 per cent. of total funding related to core relationships (defined as PCA and BCA balances and savings balances linked to those same PCA and BCA customers). The Combined Group will seek to benefit from the pro forma historical renewal rate of approximately 80 per cent. for CYBG's and Virgin Money's fixed term savings products.
- Term Funding Scheme ("TFS") funding in aggregate comprises £8.7 billion, which represents 11 per cent. of total funding. The CYBG Directors believe that the Combined Group's diversified funding model will enable it to refinance its outstanding TFS balances in advance of their contractual maturities. Furthermore, the CYBG Directors believe that as part of the Combined Group's overall funding strategy the Combined Group would be able to utilise multiple funding sources including PCA growth, BCA growth (including leveraging the RBS alternative remedies package), savings growth, and ongoing wholesale issuance including MREL.
- Based on the latest financial year end disclosures, the Combined Group will have £83.5 billion of total assets and a £69.5 billion total customer loan portfolio. The loan portfolio includes £57.8 billion of mortgages, representing

83 per cent. of total customer lending. These mortgages have an average indexed loan-to-value of 57.2 per cent., a net cost of risk of one basis point and a non-performing loan ratio of 0.6 per cent.

- The remaining customer loan portfolio comprises: £7.4 billion of SME and corporate lending; a £3.5 billion credit card portfolio; and other unsecured lending of £0.8 billion.
- Virgin Money's prime credit card portfolio will transfer to the Combined Group, providing growth optionality in unsecured lending. Virgin Money's credit card portfolio is more concentrated in lower risk segments (classified as segments of the loan book with lower than 2.5 per cent. expected loss rates), compared to the broader industry: 92 per cent. of Virgin Money's credit card portfolio versus 81 per cent. for the industry. The focus on prime lending has contributed to a lower charge-off rate compared to the industry and a declining impairment ratio in the credit card portfolio experienced by Virgin Money for the three years to December 2017: 200bps (2015FY), 170bps (2016FY) and 151bps (2017FY).
- As part of the fair valuation exercise to be conducted at completion of the Offer, CYBG will finalise its review of Virgin Money's accounting policies and practices. As part of this process, CYBG will focus on reviewing the inputs to the Effective Interest Rate ("EIR") methodology for the Combined Group.

***Strong pro forma capital position:***

- The CYBG Directors believe the Combined Group will have a strong capital position following the completion of the Offer. The day one pro forma RWAs for the Combined Group are expected to be approximately £29 billion, the CET1 ratio is expected to be in excess of 12 per cent. and the Combined Group will maintain a significant buffer in excess of its regulatory minimum capital requirements.
- The Combined Group's pro forma fully loaded CRD IV CET1 ratio minimum requirement is expected to be 10.4 per cent (including Pillar 1, Pillar 2A, CCB and CCYB buffers), based on the latest disclosed Pillar 2A requirements for both CYBG, as at 31 March 2018, and Virgin Money, as at 31 December 2017.
- In addition, the Combined Group has the potential to benefit from RWA reductions over time. CYBG has increasing confidence that it will receive IRB accreditation for its mortgage portfolio by 1 October 2018. Virgin Money has also stated its objective to reduce its mortgage RWAs.

***Reinforces delivery of existing financial targets:***

- CYBG expects to deliver:
  - *Mid-single digit CAGR loan growth to FY19:* Sustainable growth ambition continues;

- *Loan to deposit ratio of less than 120 per cent.:* Diversified funding model continues;
- *Cost to income ratio ("CIR") of 55-58 per cent. by FY19:* CIR at the lower end of the target range with significant cost synergies achievable over time;
- *Double-digit return on tangible equity by FY19:* Returns target maintained; and
- *50 per cent. dividend pay-out ratio over time:* Accelerated progressive dividend ambition.

***Earnings accretive to all shareholders:***

- The Combination is expected to be materially accretive for both sets of shareholders on an earnings per share basis once full cost synergies have been delivered.

***Strong capital generation accelerates progressive dividend ambitions:***

- The CYBG Directors expect that the delivery of significant cost synergies and enhanced earnings potential created by the Combination will support improved capital generation in the future. This would provide capacity for necessary investment in the business to drive and support sustainable asset growth as well as funding the initial investment required to achieve the cost synergies identified through the Combination.
- Given the expected strong capital generation, the Combined Group should be well placed to accelerate both CYBG and Virgin Money's progressive dividend ambitions.

**3. Arrangements with Virgin Group**

The CYBG Directors believe that the use of Virgin Money's iconic national brand combined with CYBG's customer-centric propositions will drive further growth opportunities for the Combined Group.

**(i) Brand Licence Agreement**

With effect from the completion of the Offer, CYBG's use of the Virgin Money brand will be licensed under the Brand Licence Agreement, and governed by its terms.

***Scope***

The Brand Licence Agreement grants CYBG exclusive rights in the UK to use the "Virgin Money" names and logos, as well as certain related non-exclusive rights to use the "Virgin" trade marks (together, the "**Licensed Trade Marks**"), in each case in connection with the Licensed Activities summarised below.

CYBG may use, and sub-license its rights to use in certain circumstances, the Licensed Trade Marks in respect of all banking or financial services and products

offered by UK clearing banks or challenger banks, all investment or savings products and services, and all insurance products and services, each including all such services offered by CYBG prior to completion of the Offer, as well as other ancillary services ("**Licensed Activities**").

### ***Must use***

CYBG will be required to operate at least 80 per cent. of its Licensed Activities, calculated quarterly by reference to the CYBG Group's turnover, under the "Virgin Money" brand, following the rebranding period which is expected to be no more than 3 years.

### ***Fees payable / Royalties***

Following completion of the Offer, CYBG will be liable to pay a fixed royalty as follows: up to £3 million during the period from completion of the Offer to the First Quarter Date; £12 million for the first year from the First Quarter Date (Year 1); £13 million for the second year from the First Quarter Date (Year 2); £14 million for the third year from the First Quarter Date (Year 3); and £15 million for the fourth year from the First Quarter Date (Year 4).

Thereafter, the royalty fee will comprise a minimum payment of £15 million annually (the "**Minimum Royalty**") plus, unless the CYBG Group generates turnover greater than £2.1 billion in Year 3 (the "**Threshold Amount**"), a one per cent. royalty on any incremental turnover against Year 3 turnover.

If the CYBG Group turnover exceeds the Threshold Amount in Year 3, then for each subsequent 12-month period, the royalty will comprise a minimum payment of £15 million plus a one per cent. royalty on incremental CYBG Group turnover above £2.1 billion.

The Minimum Royalty is subject to annual indexation after Year 4, with any change in the amount of the Minimum Royalty payable as a result of indexation being set-off (to the extent possible) against the amount of the royalty payable on applicable incremental CYBG Group turnover.

### ***Director Nomination Right***

Virgin Enterprises is entitled to nominate one person to be a non-executive director of CYBG.

### ***Brand collaboration with Virgin Enterprises***

CYBG and Virgin Enterprises will work together collaboratively in relation to the rebranding of CYBG's business as well as in relation to the ongoing use of the "Virgin Money" brand.

### ***Indemnity / Liability***

Subject to certain exceptions, CYBG has agreed to indemnify Virgin Enterprises for all third party claims brought against Virgin Enterprises by reason of CYBG's use of

the Licensed Trade Marks in breach of the Brand Licence Agreement and/or CYBG carrying out the Licensed Activities.

Subject to certain exceptions, Virgin has agreed to indemnify CYBG for all third party claims brought against CYBG that the use of the Licensed Trade Marks pursuant to the Brand Licence Agreement infringes the third party's intellectual property rights.

Each party's total liability under the Brand Licence Agreement is capped at £200 million (save for royalties and any termination fee payable by CYBG).

### ***Term and Termination Rights***

The Brand Licence Agreement has a perpetual term, subject to each party's termination rights.

Virgin Enterprises is entitled to terminate the Brand Licence Agreement if CYBG, among other things: (i) materially damages the brand; (ii) is in continuing material breach; (iii) undergoes a prohibited change of control; (iv) becomes insolvent; or (v) acquires a business whose business primarily consists of a "prohibited activity" as defined in the Brand Licence Agreement. In certain circumstances, the termination of the Brand Licence Agreement by Virgin Enterprises for cause entitles it to receive a termination fee from CYBG in lieu of a damages claim.

CYBG may terminate the Brand Licence Agreement if Virgin, among other things, materially damages the brand or becomes insolvent.

Following a change of control of CYBG, the Brand Licence Agreement may be terminated at the option of CYBG upon payment of a termination fee. Otherwise, the Brand Licence Agreement continues in full force and effect and the acquirer of CYBG is required to guarantee certain of CYBG's obligations under the Brand Licence Agreement.

It is also a condition to the Offer that the Existing Brand Licence Agreement between Virgin Money and Virgin Enterprises is not terminated prior to the Effective Date.

### ***Governing Law***

The Brand Licence Agreement is governed by English law and is subject to the jurisdiction of the Courts of England and Wales.

### **Shareholder approval**

The Brand Licence Agreement is conditional upon the passing of the Brand Licence Resolution. The Independent Virgin Money Directors intend unanimously to recommend that the Independent Virgin Money Shareholders vote in favour of the Brand Licence Resolution. The Brand Licence Resolution is a non-waivable condition and if it is not passed the Offer will lapse and the transaction will not proceed to completion. The Brand Licence Agreement is conditional upon the Offer becoming Effective. It is also a condition to the Offer that the Existing Brand Licence Agreement has not been terminated prior to the Offer becoming Effective.

The terms of the Brand Licence Agreement are considered by Goldman Sachs, Virgin Money's financial adviser, to be fair and reasonable. In forming this view, Goldman Sachs has taken into account the commercial assessments of the Independent Virgin Money Directors.

Further details relating to the Brand Licence Agreement and the Brand Licence Resolution will be set out in the Scheme Document.

## **(ii) Irrevocable Undertaking**

CYBG has received an irrevocable undertaking to vote in favour of the Scheme at the Court Meeting and the Resolutions<sup>4</sup> to be proposed at the Virgin Money General Meeting from Virgin Holdings in respect of 155,120,454 Virgin Money Shares (representing approximately 34.8 per cent. of the issued ordinary share capital of Virgin Money as at 15 June 2018, being the last Business Day before the date of this Announcement).

The undertaking given by Virgin Holdings will cease to be binding in the following circumstances:

- (a) the Scheme Document is not published within 28 days (or such longer period as the Panel may agree) of the date of the Announcement;
- (b) the Scheme lapses or is withdrawn in accordance with its terms and CYBG publicly confirms that it does not intend to proceed with the Offer or to implement the Offer by way of a Takeover Offer;
- (c) CYBG has exercised its right to implement the Offer by way of a Takeover Offer and the Takeover Offer lapses or is withdrawn;
- (d) the Scheme has not become effective by 6.00 p.m. on the Long Stop Date (or such later time or date as agreed between CYBG and Virgin Money, with the approval of the Court and/or the Panel if required); or
- (e) at any time prior to the Scheme becoming effective, a third party announces a firm intention to make an offer to acquire the entire issued and to be issued ordinary share capital of Virgin Money, which in Virgin Holdings' reasonable opinion represents an improvement to the terms of the Offer.

Further details of this irrevocable undertaking are set out in Appendix 3 to this Announcement.

## **4. Potential synergies and integration planning**

The CYBG Directors, having reviewed and analysed the potential synergies of the Combined Group, as well as taking into account the factors they can influence, believe that the Combined Group can deliver shareholder value through expected realisation of approximately £120 million of annual pre-tax cost synergies. Incremental to these quantified cost synergies, the Combined Group will benefit from

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<sup>4</sup> Other than the Brand Licence Resolution in respect of which Virgin Holdings is conflicted.

avoiding planned future Virgin Money digital bank running costs, given the existing CYBG capabilities.

It is currently envisaged that the approximately £120 million of annual pre-tax cost synergies will be realised principally from:

- i) **Organisational design:** Reduction of FTEs across the Combined Group, removing duplication of senior management roles, delivering approximately £35 million of run rate cost savings.
- ii) **Central cost management:** Approximately £35 million of run rate cost savings generated by rationalisation of the Combined Group's central functions locations; with scale efficiencies in IT, central procurement costs, third party outsourcing and other operating expenses. Central cost management savings are net of incremental trademark licence fees related to the use of the Virgin Money brand.
- iii) **Operational efficiency:** Reduction of FTEs across the Combined Group through removing duplication of central functions roles, integrating customer service operating models and driving efficiencies through increased digitisation and automation, delivering approximately £35 million of run rate cost savings.
- iv) **Network efficiencies:** Optimisation of the Combined Group's branch network, delivering approximately £15 million of run rate cost savings.

The run rate of these annual pre-tax cost synergies will be fully achieved by the end of the financial year ending 30 September 2021, with approximately 28 per cent. achieved as at 30 September 2019 and approximately 67 per cent. as at 30 September 2020. It is therefore expected that the first year of full run rate cost synergies will be the financial year ending 30 September 2022. The cost synergies recognised during the financial year ending 30 September 2019 are expected to be approximately £20 million and approximately £50 million recognised during the financial year ending 30 September 2020.

The identified recurring cost synergies will accrue as a direct result of the Combination and would not be achieved on a standalone basis.

It is expected that the realisation of these cost synergies would result in one-off pre-tax costs to achieve of approximately £240 million. These are expected to be phased broadly evenly across a three year period: employee restructuring costs and IT migration strategy phased over all three years following completion of the Offer, contract break fees to be recognised in the third year following completion of the Offer, and the optimisation of branches and office locations to be achieved in years two and three following completion of the Offer. Aside from these one-off exceptional costs and the incremental trademark licence fees incorporated into the assessed cost synergies, no material dis-synergies are expected in connection with the Combination.

These statements relating to identified synergies and estimated savings relate to future actions or circumstances which by their nature involve risks, uncertainties and contingencies. As a consequence, the identified synergies and estimated savings

referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.

Please refer to Appendix 4 for further details on these anticipated cost synergies. The Quantified Financial Benefits Statement set out above has been reported on under the Takeover Code by Deloitte, and by CYBG's financial advisers, Morgan Stanley and Deutsche Bank. Each of Deloitte, Morgan Stanley and Deutsche Bank has given and not withdrawn its consent to the publication of its report in this Announcement in the form and context in which it is included. Copies of their reports are included in Parts B and C of Appendix 4. References in this Announcement to the anticipated synergies should be read in conjunction with Appendix 4.

Separately, the Combined Group is expected to incur approximately £60 million of one-off pre-tax costs associated with the rebranding exercise, expected to be largely incurred during the first two years following completion of the Offer. The majority of the costs associated with the rebranding exercise relate to products, IT and property. These rebranding costs replace the costs that would otherwise have been required to scale the B brand more widely.

The CYBG Directors believe that the Combined Group will benefit from the rebranding exercise, realising incremental revenue synergies from the use of the Virgin Money brand across an enhanced product range, thereby driving increased customer loyalty, higher sales conversion and an enhanced customer relationship. A rebranding steering committee (which will include representatives of Virgin Enterprises) and a rebranding working group will be set up in due course to ensure the rebranding process is undertaken in an effective manner, including by leveraging the experience that Virgin Enterprises has gained from prior rebranding exercises.

In addition, the CYBG Directors believe the Combined Group will benefit from funding synergies that are expected to be available over time.

These potential revenue and funding synergies, as well as the avoided planned future Virgin Money digital bank running costs, have not been quantified for the purposes of reporting under the Takeover Code.

It is intended that an integration team will be established, which will bring together the relevant CYBG and Virgin Money capabilities, to ensure that the implementation of the synergy and integration programme is effected in an efficient and effective manner. As at the date of this Announcement, a detailed integration plan is being compiled. Finalisation of the integration plan will be subject to engagement with appropriate stakeholders, including employee representative bodies and unions. The integration process will be carefully managed to leverage the best talent from both the CYBG and Virgin Money businesses and ensure that the necessary implementation measures are taken with the least disruption to the Combined Group's operations and customer base.

## **5. Virgin Money recommendation**

The Independent Virgin Money Directors, who have been so advised by Goldman Sachs as to the financial terms of the Offer, consider the terms of the Offer to be fair and reasonable. In providing advice to the Independent Virgin Money Directors,

Goldman Sachs has taken into account the commercial assessments of the Independent Virgin Money Directors.

The terms of the Brand Licence Agreement are considered by Goldman Sachs, Virgin Money's financial adviser, to be fair and reasonable. In forming this view, Goldman Sachs has taken into account the commercial assessments of the Independent Virgin Money Directors.

Accordingly, the Independent Virgin Money Directors intend unanimously to recommend that the Virgin Money Shareholders vote in favour of the resolutions relating to the Offer (including the Brand Licence Resolution) at the Virgin Money Meetings (or in the event that the Offer is implemented by Takeover Offer, to accept or procure acceptance of such offer), as the Virgin Money Directors who own Virgin Money Shares have irrevocably undertaken to do in respect of their own beneficial holdings totalling 2,612,309 Virgin Money Shares (representing approximately 0.586 per cent. of the issued ordinary share capital of Virgin Money as at 15 June 2018, being the last Business Day before the date of this Announcement).

Further details of these irrevocable undertakings are set out in Appendix 3.

## **6. Background to and reasons for the recommendation of the Offer**

Since its acquisition of Northern Rock in 2012, Virgin Money has pursued a growth strategy focused on creating a digital, data-driven, customer-centric bank and diversifying into the SME market, and has enjoyed significant growth. By 31 March 2018, Virgin Money had total loans outstanding of approximately £37 billion and just over 3,200 employees serving 3.34 million customers across 74 UK-wide stores and 8 lounges<sup>5</sup>.

Following its initial public offering on the London Stock Exchange in November 2014, Virgin Money has consistently delivered against its key strategic objectives and financial targets demonstrating balanced organic growth within a consistent, robust approach to risk management. This growth, in combination with its efficient operating model, has enabled Virgin Money to deliver strong and growing profitability, such that it has achieved a return on tangible equity of 14 per cent with a 13.8 per cent CET1 ratio as at 31 December 2017.

The Independent Virgin Money Directors remain confident in the ongoing execution of its strategy as an independent company and that successful delivery of its strategy will provide long-term growth and create significant value for shareholders. While mindful of the strong track record of delivery since listing in 2014, the Independent Virgin Money Directors have, in considering the offer made by CYBG, also taken into account the likely time it will take for Virgin Money to fully deliver on its strategy and the possible macro-economic and competitive headwinds that might further emerge. In addition, the Independent Virgin Money Directors believe that the Combination would be able further to enhance its growth strategy and efficiency, benefitting from increased scale and an acceleration in capabilities, particularly in SME and current accounts.

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<sup>5</sup> Based on 78 physical locations, of which 4 are hybrid stores and lounges.

Overall, the Independent Virgin Money Directors believe the Offer is compelling. It is expected to deliver strong outcomes for Virgin Money stakeholders. In particular, shareholders can benefit from accelerated value delivery.

In reviewing this Offer, the Independent Virgin Money Directors have taken account of shareholder value, the impact on wider stakeholders and a range of transaction considerations.

#### *Shareholder value*

For shareholders, the Independent Virgin Money Directors believe the Offer delivers accelerated value creation through an upfront premium, coupled with participation in the continuing progress of the Combined Group including sharing of the expected synergies. In particular, the Independent Virgin Money Directors note that:

- At the agreed exchange ratio of 1.2125, the Offer results in Virgin Money shareholders owning approximately 38 per cent. of the Combined Group, and based on a Closing Price of 306 pence per CYBG Share on 15 June 2018 (being the last Business Day before the date of this Announcement), the Offer values each Virgin Money Share at 371 pence, representing<sup>6</sup>:
  - a premium of 19 per cent. to the Closing Price of 312 pence per Virgin Money Share on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period);
  - a premium of 35 per cent. to the volume weighted average price of 276 pence per Virgin Money Share for the three-month period ended 4 May 2018;
  - a total return to investors since IPO of 37 per cent.; and
  - a valuation multiple of approximately 1.28 times Virgin Money's Tangible Book Value per share at 31 December 2017.
- Shareholders are expected to benefit from the realisation of synergies commensurate with their ownership of the Combined Group.
- The CYBG Directors believe the strong capital generation of the Combined Group will accelerate CYBG's progressive dividend ambitions.

#### *Impact on wider stakeholders*

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<sup>6</sup> At a CYBG Closing Price of 318 pence per CYBG Share on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period), the Offer values each Virgin Money Share at 386 pence representing a premium of 23 per cent. to the Closing Price of 312 pence per Virgin Money Share on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period); a premium of 40 per cent. to the volume weighted average price of 276 pence per Virgin Money Share for the three-month period ended 4 May 2018; a total return to investors since its IPO of 42 per cent.; and a valuation multiple of 1.33 times Virgin Money's Tangible Book Value per share at 31 December 2017.

For customers, the Combination creates a new national competitor in UK banking, improving competition and providing an enhanced product range – benefitting both Virgin Money and CYBG's customers and UK consumers as a whole.

For employees, the Independent Virgin Money Directors expect there to be opportunities within the Combined Group through the creation of a new, larger force in UK banking.

Recognising that there will be a loss of jobs as a result of the Combination, the Independent Virgin Money Directors welcome CYBG's intention to leverage the best talent of both Virgin Money and CYBG colleagues.

The Independent Virgin Money Directors have been very focused on the interests of Virgin Money employees and attach importance to the commitments made by CYBG to protect employees' rights with regard to employment terms, redundancies and pension obligations. Further, the Independent Virgin Money Directors have taken comfort from CYBG's stated intention to maintain a substantial base in Gosforth for at least three years following completion of the Offer.

The Independent Virgin Money Directors welcome CYBG's commitment to the Women in Finance Charter and to take action to reduce the gender pay gap of the Combined Group.

For communities, the Independent Virgin Money Directors applaud the commitment by CYBG to continue to support the Virgin Money Foundation, and to honour its commitments through ongoing financial support for at least the next three years.

Finally, the Independent Virgin Money Directors note CYBG's stated intention to establish a unifying purpose within the Combined Group to inform an ethical business direction, which is expected to support essential cultural alignment.

#### *Transaction considerations*

In reviewing the Offer, the Independent Virgin Money Directors have taken into account a range of transaction considerations including capital adequacy and CYBG's approach to integration. In particular, the Independent Virgin Money Directors have taken account of:

- CYBG's stated expectation that the pro forma entity will have a CET1 ratio in excess of 12 per cent at completion; CYBG's increasing confidence in receiving IRB accreditation for its mortgage portfolio by 1 October 2018, which will make the pro forma CET1 ratio higher; and
- CYBG's stated intention to mitigate integration risk through a proposal to separate migration and re-branding into several distinct phases to minimise complexity and the impact on customers.

#### *Recommendation*

Just over twenty years ago Virgin Money was launched with the ambition of building a business capable of delivering real, sustained change to UK banking. Today's Announcement is the next step towards delivering on that promise.

The decision making process of the Independent Virgin Money Directors has been entirely independent from any decision making by Virgin Group.

Following careful consideration of the above factors, the Independent Virgin Money Directors intend to recommend that Virgin Money Shareholders accept the Offer.

**7. Strategic plans and intentions with regard to management, employees and places of business**

Throughout integration, purpose and culture will be central to continuing to build a customer centric business with high levels of engagement and motivation whilst minimising risk of disruption and maximising performance.

*Board of the Combined Group*

Jim Pettigrew, Chairman of CYBG, David Duffy, CEO of CYBG and Ian Smith, CFO of CYBG, will retain their current positions in the Combined Group.

Jayne-Anne Gadhia, CEO of Virgin Money has been in her current role with Virgin Money for over 10 years. She brings a wealth of experience in successfully leading customer-facing banking businesses and delivering the Virgin Money brand to customers. She has agreed, in principle, to support the Combined Group as a senior adviser to the CEO (in a consultancy role) for a period of time beyond completion of the Offer, on terms to be agreed.

It has been agreed that two of the non-executive directors currently on the Virgin Money Board, as well as one non-executive director nominated by Virgin Enterprises pursuant to its rights under the Brand Licence Agreement, will become members of the CYBG Board on completion of the Offer, subject to the usual regulatory approvals. The remaining non-executive directors of Virgin Money will step down at completion of the Offer.

*Management and employees*

CYBG attaches great importance to the skills and experience of the existing management and employees of the Virgin Money Group. CYBG will aim to leverage the best talent across the Combined Group and management and employees of the Virgin Money Group will have the possibility of benefiting from potential new opportunities within the Combined Group following the Combination.

The CYBG Board recognises that, in order to achieve the expected benefits of the Combination, operational and administrative restructuring will be required following completion of the Combination. As a result of the significant operational overlap between CYBG and Virgin Money, the Combined Group will be able to reduce the duplication of roles, leading to a decrease in the total number of FTEs. It is currently expected that the total number of FTEs of the Combined Group, being approximately 9,500 FTEs, will reduce by approximately 16 per cent., some of which will take place via natural attrition. The CYBG Board does not expect any material change to the balance of skills and functions in the Combined Group.

Following completion of the Offer, the existing contractual and statutory employment rights of the Virgin Money employees will be observed and pension obligations

complied with, in accordance with applicable law. CYBG does not envisage making any material changes to the conditions of employment of Virgin Money employees or the existing agreed pension contributions for existing members of the Virgin Money pension plans or admission of new members into the existing Virgin Money defined contribution pension plans in connection with completion of the Offer. CYBG has also agreed to maintain Virgin Money's redundancy policies, for a period of three years from completion of the Offer.

Jayne-Anne Gadhia (the "**Virgin Money CEO**") has agreed to step down from her current role upon completion of the Offer and has entered into a settlement agreement with Virgin Money which will take effect from completion of the Offer. The settlement agreement has been agreed between the Virgin Money CEO and Virgin Money.

The current directors' remuneration policy of Virgin Money does not provide for executive directors to receive redundancy payments on the same basis as all the other employees of the Virgin Money Group in accordance with the Virgin Money Group's current redundancy policy. To remove this difference in treatment, Virgin Money will propose to Virgin Money Shareholders at the Virgin Money General Meeting an amendment to the directors' remuneration policy to permit the payment of redundancy payments to Virgin Money executive directors on the same basis as other employees. If the resolution is passed by Virgin Money Shareholders, a redundancy payment will be made to the Virgin Money CEO pursuant to the terms of the settlement agreement. Further details of the resolution to be put to the Virgin Money Shareholders (the passing of which will not be a condition to the Scheme) will be set out in the Scheme Document.

At this stage, CYBG and Virgin Money have had limited preliminary discussions on future incentivisation arrangements for the directors and employees of Virgin Money.

#### *Places of business*

CYBG intends that the Combined Group will maintain a substantial base in Gosforth for at least three years following completion of the Offer. CYBG does not intend to materially alter the overall size or nature of operations at its Glasgow headquarters.

As a result of the significant overlap in operational functions between CYBG and Virgin Money, CYBG expects to derive significant run-rate cost synergies from the rationalisation of the Combined Group's property portfolio to remove duplication over time. It is expected that the majority of these savings will be derived from the optimisation of CYBG and Virgin Money's respective branch networks. In addition, CYBG expects the rationalisation of a limited number of operational function offices, in two to three years' time. Until the integration planning work has been completed, the precise impact of the Combination on the places of business of the Combined Group will not be known, but where practicable, the aim will be to relocate staff in nearby locations of the Combined Group. CYBG does not intend to redeploy any material fixed assets of Virgin Money.

#### *Research and development*

Owing to the nature of its business, Virgin Money does not conduct significant research and development activities, but to the extent any such activities are currently undertaken, they are not expected to be impacted in any material way by the Combination.

#### *Diversity*

CYBG intends that the Combined Group will remain a committed supporter of the Women in Finance Charter and will continue to take action to reduce its gender pay gap in line with the Annual Report and Accounts of CYBG. The Combined Group will remain transparent on its reporting of progress both on the Women in Finance Charter and its gender pay gap.

#### *Virgin Money Foundation*

CYBG recognises the considerable impact the Virgin Money Foundation has had in promoting the sustainable regeneration of socially and/or economically deprived communities across the UK, with particular focus on the North East of England, and intends not only to support the final £1 million instalment of the £4 million pledge to the Virgin Money Foundation which is due in the tax year ending 31 March 2019, but also to continue to provide up to £400,000 per annum of financial support to the Virgin Money Foundation to cover its operating costs, as well as an annual donation of at least £1 million per annum (to be invested in charitable causes), for at least three years after completion of the Offer.

The statements above will be treated as post-offer intention statements by CYBG for the purpose of Rule 19.6 of the Takeover Code.

### **8. Dividends**

If Virgin Money announces, declares or pays any dividend or any other distribution to Virgin Money Shareholders on or after the date of this Announcement, CYBG reserves the right to make an equivalent reduction in the terms of the Offer. This right will not be invoked in respect of a dividend of up to 2.3 pence per Virgin Money Share in the event that such a dividend is declared by the Virgin Money Directors and paid in respect of Virgin Money's six month interim period ending 30 June 2018.

As noted above, given the expected strong capital generation, the CYBG Directors believe the Combined Group should be well placed to accelerate both CYBG and Virgin Money's progressive dividend ambitions.

### **9. Information relating to CYBG Group**

With over 175 years of history, the CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, the CYBG Group offers, through its community brands "Clydesdale Bank" and "Yorkshire Bank", a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit

cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

In 2016 the CYBG Group launched a new app-based digital banking service under the "B" brand, offering PCAs, savings and transaction banking services in the UK. The range of products and services available in this digital proposition continues to expand and evolve.

The CYBG Group's long-established retail and SME franchises, serving 2.8 million customers, have significant scale and strength in PCAs, BCAs, SME lending and mortgages in its core regions. As at 31 March 2018, the CYBG Group had £28.4 billion of customer deposits and a £32.7 billion customer loan portfolio, of which £24.1 billion were mortgage loans, £7.4 billion was SME lending and the remainder of the portfolio comprised unsecured personal lending (including credit cards and overdrafts).

The CYBG Group has a standalone operating platform, with limited ongoing support required provided by National Australia Bank Limited under transitional service arrangements until the CYBG Group's planned separation is fully implemented (expected by the end of 2018). The CYBG Group's operating platform supports its full-service customer proposition and enables the CYBG Group to provide services to customers through multiple distribution channels. As at 31 March 2018, these distribution channels included 169 retail customer banking centres (70 Clydesdale Bank branded, 97 Yorkshire Bank branded, two "B" branded) and 40 business and private customer banking centres (including 32 centres integrated with retail customer banking centres), strong and well-established relationships with leading third-party mortgage intermediaries, access to certain banking services through the Post Office's c.11,500 branches, proprietary telephony and voice services, and an ATM network. The CYBG Group's distribution platform continues to develop to allow Clydesdale Bank, Yorkshire Bank and "B" customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer interaction preferences and behaviour. This distribution capability is underpinned by a rapidly evolving digital platform ("iB") which powers CYBG's retail franchises: the digital-only brand "B" and omni-channel distribution of the Clydesdale Bank and Yorkshire Bank brands. During 2018, CYBG's SME franchise will be transferred onto the iB platform, ending a migration of all customer activity onto a platform that offers enhanced capability including the aggregation of customer accounts and seamless aggregation of third party products and services.

For the year ended 30 September 2017, the CYBG Group's net interest income was £844 million as compared to £806 million for the year ended 30 September 2016. For the six month period ended 31 March 2018, the CYBG Group's net interest income was £426 million, as compared to £411 million for the six month period ended 31 March 2017.

CYBG had approximately 6,500 FTEs as at 30 September 2017. CYBG is building a purpose-led, high performing, team-based culture. A clear set of organisational behaviours shape the culture of the business. Performance approaches drive alignment with the CYBG Group strategy, teamwork and individual focus on improvement. The CYBG Group has significantly increased its focus on wellbeing,

inclusion and diversity. These are hardwired into values and behaviours, and built into people practices. The culture transformation is focused on creating a set of leaders, colleagues and ways of working that will allow the business to evolve and change in line with the market and the CYBG Group strategy.

As part of its wholesale funding activity, CYBG has accessed and will continue, from time to time, to look to access the securitisation markets through its Lanark or Lannraig Mortgage Backed Securities programmes and its Regulated Covered Bond programme.

#### 10. **Current trading of CYBG**

Since CYBG's Interim Financial Report was announced on 15 May 2018, the CYBG Group's financial performance has been in line with management's expectations.

#### 11. **Information relating to Virgin Money Group**

Virgin Money is a UK challenger bank with a powerful brand, strong balance sheet and customer-focused culture. Virgin Money's business ambition is to make "everyone better off" – this philosophy underpins its approach to business by offering good value products to customers, treating employees well, making a positive contribution to society and creating value for shareholders. Virgin Money consistently achieves strong employee engagement scores and has an extensive Social Enterprise programme which includes the Virgin Money Foundation, "Make £5 Grow" and its not-for-profit online donation service, Virgin Money Giving, now the second largest of its kind in the UK.

The Virgin Money Group is primarily focused on retail customers, providing residential mortgages, savings and credit cards, along with a range of financial products including investments and insurance. With over 3.34 million customers, the Virgin Money Group provides customers with direct access to its products and services through multi-channel distribution, which includes digital channels (online and mobile), postal, telephony and a national network of 74 stores and eight lounges<sup>7</sup>. Direct distribution is then supplemented by intermediary distribution with mortgages primarily sold through Virgin Money's intermediary partners. Certain banking services are also available through any UK Post Office.

Virgin Money's operations are centred in Gosforth, with additional offices in London, Edinburgh, Norwich and Chester. The monthly average number of persons (including directors) employed by the Virgin Money Group was 3,224 in 2017 (2016: 3,140). As at 31 March 2018, Virgin Money had customer deposits of £31.1 billion and loans and advances to customers of £36.9 billion.

For the 52 weeks ended 31 December 2017, the Virgin Money Group generated profits of £192.1 million and as at 31 December 2017 had gross assets of £41,108 million.

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<sup>7</sup> Based on 78 physical locations, of which 4 are hybrid stores and lounges.

As part of its wholesale funding activity, Virgin Money will look to access the markets through its Gosforth Residential Mortgage Backed Securities programmes, Covered Bonds programme or Global Medium Term Notes programme.

**12. Current trading of Virgin Money**

Since Virgin Money's Q1 2018 trading update announcement on 1 May 2018, Virgin Money's financial performance has been in line with management's expectations.

**13. Information on the Combined Group**

CYBG's shares will continue to have their primary listing on the Official List and to trade on the London Stock Exchange, and will continue to have a secondary listing on, and CHESS Depository Interests representing CYBG Shares will continue to trade on, the Australian Securities Exchange.

The registered offices of CYBG and Virgin Money will remain in England following completion of the Offer, and the Combined Group will be headquartered in Glasgow, Scotland.

**14. Offer-related arrangements**

***Virgin Money Confidentiality Agreement between CYBG and Virgin Money***

CYBG and Virgin Money entered into the Virgin Money Confidentiality Agreement on 21 May 2018 pursuant to which each of CYBG and Virgin Money has undertaken to keep certain information relating to the Offer and to the other party confidential and not to disclose such information to third parties except to certain permitted disclosees for the purposes of evaluating the Offer or as permitted in writing provided by the other party in advance, and, unless or if required by applicable laws or regulations. The confidentiality obligations of each party under the Virgin Money Confidentiality Agreement shall terminate on 7 May 2020, with certain exceptions.

The Virgin Money Confidentiality Agreement also contains undertakings from CYBG that for a period of 12 months from the date of the Virgin Money Confidentiality Agreement, subject to certain exceptions, neither CYBG nor any other member of the CYBG Group shall, without the prior written consent of Virgin Money, acquire or offer to acquire any interest in shares or other securities of Virgin Money (which undertaking ceases as at the date of this Announcement). Each of CYBG and Virgin Money has undertaken that, for a period of 12 months from the date of the Virgin Money Confidentiality Agreement, neither party shall solicit a senior or key employee of the other party or any member of the other party's group, subject to customary carve-outs.

***Virgin Holdings Confidentiality Agreement between CYBG and Virgin Holdings***

CYBG and Virgin Holdings entered into the Virgin Holdings Confidentiality Agreement on 22 May 2018 pursuant to which each of CYBG and Virgin Holdings has undertaken to keep certain information relating to entry into the Brand Licence Agreement and to the other party confidential and not to disclose such information to third parties except to certain permitted disclosees for the purposes of considering entry into the Brand Licence Agreement or if required by applicable laws or

regulations. The confidentiality obligations of each party under the Virgin Holdings Confidentiality Agreement shall terminate on 22 May 2020, with certain exceptions.

The Virgin Holdings Confidentiality Agreement also contains undertakings from each party that, for a period of 12 months from the date of the Virgin Holdings Confidentiality Agreement, neither party shall solicit any director, officer or employee of the other party or any member of the other party's group, subject to customary carve-outs.

### ***Co-operation Agreement between CYBG and Virgin Money***

CYBG and Virgin Money have entered into the Co-operation Agreement, pursuant to which CYBG and Virgin Money have agreed to use all reasonable efforts to satisfy, as soon as reasonably practicable, the Conditions relating to regulatory and other third party clearances set out in paragraphs 6 to 9 of Appendix 1 to this Announcement.

CYBG and Virgin Money have agreed to certain undertakings to provide each other with reasonable information, assistance and access in relation to the filings, submissions and notifications to be made in relation to such regulatory and other third party clearances. CYBG and Virgin Money have also agreed to provide each other with reasonable information, assistance and access for the preparation of the key shareholder documentation.

The Co-operation Agreement records CYBG's and Virgin Money's intention to implement the Offer by way of the Scheme. However, CYBG may implement the Offer by way of a Takeover Offer if: (i) Virgin Money consents; (ii) a third party announces a firm intention to make an offer for Virgin Money; or (iii) the Independent Virgin Money Directors withdraw, adversely qualify or adversely modify their unanimous recommendation of (or intention to recommend) the Offer.

CYBG is subject to certain customary restrictions on the conduct of its business during the period pending completion of the Offer, and which prohibit, among other things: (i) the payment by CYBG of dividends (save that it may pay a financial dividend for the financial year ending 30 September 2018 consistent with its published dividend policy) and (ii) the allotment of further shares (or rights or options in respect of shares) (other than pursuant to employee share incentive plans, or in order to satisfy options or awards vesting under those plans).

The Co-operation Agreement also contains provisions that will apply in respect of the Virgin Money Share Plans and certain other employee incentive arrangements.

The Co-operation Agreement shall terminate if (amongst other circumstances):

- (i) if CYBG and Virgin Money so agree in writing;
- (ii) upon service of written notice by either party to the other party;
  - (a) if the Offer is withdrawn, terminated or lapses in accordance with its terms prior to the Long Stop Date and, where required, with the consent of the Panel;

- (b) if the Scheme is not approved by the Virgin Money Shareholders at the Court Meeting and/or the Virgin Money General Meeting or the Court refuses to sanction the Scheme;
- (c) unless otherwise agreed by the parties in writing, if the Effective Date has not occurred by the Long Stop Date;
- (d) if Virgin Money makes an announcement prior to the publication of the Scheme Document that the Independent Virgin Money Directors no longer intend to recommend the Offer; or
- (e) if CYBG makes an announcement prior to the publication of the Circular that the CYBG Directors no longer intend to recommend the Offer.

## 15. **Ratings and Outlook**

CYBG's long-term credit ratings and outlook as at 15 June 2018 were BBB- Stable and BBB+ Stable (S&P and Fitch respectively). Its subsidiary, Clydesdale Bank PLC's, long-term credit ratings and outlook were Baa1 Positive, BBB+ Stable and BBB+ Stable, (Moody's, S&P and Fitch respectively).

Virgin Money long-term credit ratings and outlook as at 7 June 2018/5 March 2018 were Baa3 Stable/BBB+ Stable (Moody's/Fitch). Its subsidiary, Virgin Money plc, had long-term credit ratings as at 7 June 2018/7 September 2017 of Baa2 Stable/BBB+ Stable (Moody's/Fitch).

As at 18 June 2018, there had been no changes to these long-term credit ratings or outlooks since commencement of the Offer.

## 16. **Virgin Money Share Plans**

The Offer will extend to any Virgin Money Shares unconditionally allotted, issued or transferred prior to the Scheme Record Time to satisfy the vesting or exercise of options and awards granted under the Virgin Money Share Plans.

Appropriate proposals will be made in due course to participants in the Virgin Money Share Plans. Details of these proposals will be set out in the Scheme Document and in separate letters to be sent to the participants in the Virgin Money Share Plans.

## 17. **Scheme process and publication of the Scheme Document and the Prospectus**

It is intended that the Offer will be implemented by way of a Court sanctioned scheme of arrangement between Virgin Money and Virgin Money Shareholders, made under Part 26 of the 2006 Act (although CYBG reserves the right to implement the Offer by way of a Takeover Offer, subject to the Panel's consent and to the terms of the Co-operation Agreement). The procedure involves, among other things, an application by Virgin Money to the Court to sanction the Scheme, in consideration for which the Virgin Money Scheme Shareholders will receive the New CYBG Shares. The purpose of the Scheme is to provide for CYBG to become the owner of the entire issued and to be issued ordinary share capital of Virgin Money.

To become Effective, the Scheme requires, among other things, the approval of a majority in number representing not less than 75 per cent. in value of the relevant Virgin Money Shareholders present and voting in person or by proxy at the Court Meeting, which is convened by order of the Court, and the passing of the Resolutions necessary to implement the Offer at the Virgin Money General Meeting. The Scheme must also be sanctioned by the Court.

The Conditions in paragraphs 1 and 2 of Appendix 1 to this Announcement provide that the Scheme will lapse if:

- the Court Meeting and the Virgin Money General Meeting are not held by the 22nd day after the expected date of the Court Meeting to be set out in the Scheme Document in due course (or such later date as may be agreed between CYBG and Virgin Money);
- the Court sanction hearing to approve the Scheme is not held by the 22nd day after the expected date of the Court sanction to be set out in the Scheme Document in due course (or such later date as may be agreed between CYBG and Virgin Money);
- the Scheme has not become Effective by 11.59 p.m. on the Long Stop Date (or such later date as may be agreed between CYBG and Virgin Money and the Panel and the Court may allow).

In addition to these approvals, the Scheme is subject to (among other things) approval of the CYBG Shareholders and the receipt of certain regulatory clearances. The Scheme is also subject to the other Conditions set out in Appendix 1 to this Announcement, and to the full terms and conditions to be set out in the Scheme Document.

If any Condition in paragraphs 2(a) and (b) and 3 to 16 of Appendix 1 to this Announcement is not capable of being satisfied by the date specified therein, CYBG shall make an announcement through a Regulatory Information Service as soon as practicable and, in any event, by not later than 7.00 a.m. on the Business Day following the date so specified, stating whether CYBG has invoked that Condition, (where applicable) waived that Condition or, with the agreement of Virgin Money, specified a new date by which that Condition must be satisfied.

Upon the Scheme becoming Effective: (i) it will be binding on all Virgin Money Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Virgin Money General Meeting (and if they attended and voted, whether or not they voted in favour); and (ii) share certificates in respect of Virgin Money Shares will cease to be valid and entitlements to Virgin Money Shares held within the CREST system will be cancelled. The New CYBG Shares will be issued by CYBG to Virgin Money Scheme Shareholders no later than 14 days after the Effective Date.

The Scheme Document will include full details of the Scheme, together with notices of the Court Meeting and the Virgin Money General Meeting. The Scheme Document will also contain the expected timetable for the Offer, and will specify the necessary actions to be taken by the Virgin Money Shareholders. Subject to the Scheme

Document being posted to Virgin Money Shareholders and, for information only, to persons with information rights and to holders of options granted under the Virgin Money Share plans, as soon as practicable following the date of this Announcement (subject to the availability of the Court to approve the Scheme Document for posting), the Panel has consented to a posting date later than 28 days following this Announcement.

CYBG will be required to make the Prospectus available to the public in accordance with the Prospectus Rules. The Prospectus will contain information on the Combined Group and the New CYBG Shares. It is intended that the Prospectus will be published at the same time as the Scheme Document is posted to Virgin Money Shareholders.

Once the necessary approvals from Virgin Money Shareholders and CYBG Shareholders have been obtained and the other Conditions have been satisfied or (where applicable) waived and the Scheme has been approved by the Court, the Scheme will become Effective upon delivery of the Court Order to the Registrar of Companies. Subject to the satisfaction of the Conditions, the Scheme is expected to become Effective during calendar Q4 of 2018.

The Scheme will be governed by English law and will be subject to the jurisdiction of the Courts of England and Wales. The Scheme will also be subject to the applicable requirements of the Takeover Code, the Panel, the London Stock Exchange and the FCA.

Fractions of New CYBG Shares will not be allotted or issued to Virgin Money Shareholders and entitlements will be rounded down to the nearest whole number of New CYBG Shares and all fractions of New CYBG Shares will be aggregated and sold in the market as soon as practicable after the Offer becomes Effective. The net proceeds of such sale (after deduction of all expenses and commissions incurred in connection with the sale) will be distributed in due proportions to Virgin Money Shareholders who would otherwise have been entitled to such fractions, save that if the entitlement of any Virgin Money Shareholder in respect of the proceeds of sale of fractional entitlements amounts to less than £5, such proceeds will be retained for the benefit of the Combined Group.

In relation to the Condition in paragraph 7(b) of Appendix 1, if any approval is given by the appropriate regulator (as defined under section 178(2A) of FSMA) subject to any condition(s), subject to the requirements of the Panel, CYBG will have regard to the reasonable views of Virgin Holdings when considering whether or not to accept such condition(s) (subject to any restrictions which may be imposed by the relevant regulator).

## 18. **Interests in Virgin Money**

As at close of business on 14 June 2018 (being the last practicable date prior to the date of this Announcement), neither CYBG, nor any of the CYBG Directors, nor any member of the CYBG Group, nor, so far as the CYBG Directors are aware, any person acting in concert with CYBG for the purposes of the Offer, had:

- (a) any interest in, or right to subscribe for, any relevant securities of Virgin Money;

- (b) any short position in (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of, any relevant securities of Virgin Money; or
- (c) borrowed or lent, or entered into any financial collateral arrangements or dealing arrangements in respect of, any relevant securities of Virgin Money.

**19. CYBG General Meeting and CYBG recommendation**

Due to its size, the Offer will be conditional on the approval of the CYBG Shareholders for the purposes of the Listing Rules at the CYBG General Meeting. The CYBG General Meeting will be convened for the purpose of approving the Offer and the allotment and issuance of the New CYBG Shares.

It is expected that the Circular, containing details of the Offer and notice of the CYBG General Meeting, will be posted to CYBG Shareholders at or around the same time as the Scheme Document is posted to Virgin Money Shareholders, with the CYBG General Meeting held at or around the same time as the Virgin Money Meetings.

The CYBG Board considers the Offer to be in the best interests of CYBG and the CYBG Shareholders as a whole and intend unanimously to recommend that CYBG Shareholders vote in favour of the resolutions to approve the Offer to be proposed at the CYBG General Meeting, as those CYBG Directors who hold CYBG Shares have irrevocably undertaken to do in respect of their own beneficial holdings totalling 476,988 CYBG Shares (representing approximately 0.054 per cent. of the issued ordinary share capital of CYBG as at 15 June 2018, being the last Business Day before the date of this Announcement).

The CYBG Board has received financial advice from Morgan Stanley and Deutsche Bank in relation to the Offer. In providing their advice to the CYBG Board, Morgan Stanley and Deutsche Bank have taken into account the commercial assessments of the CYBG Board.

Details of undertakings given by the CYBG Directors are set out in Appendix 3.

**20. Delisting and cancellation of trading**

It is intended that the London Stock Exchange and the FCA will be requested respectively to cancel trading in Virgin Money Shares on the Main Market and the listing of the Virgin Money Shares from the Official List on the Effective Date.

If the Offer is effected by way of a Takeover Offer, it is anticipated that the cancellation of Virgin Money's listing on the Official List and admission to trading on the London Stock Exchange's market for listed securities will take effect no earlier than 20 Business Days following the date on which the Takeover Offer becomes or is declared unconditional in all respects provided CYBG has obtained 75 per cent. or more of the voting rights of Virgin Money.

Delisting would significantly reduce the liquidity and marketability of any Virgin Money Shares not assented to the Offer at that time. If the Offer is effected by way of a Takeover Offer and such Takeover Offer becomes or is declared unconditional in all

respects and sufficient acceptances are received, CYBG intends to exercise its rights to acquire compulsorily the remaining Virgin Money Shares in respect of which the Takeover Offer has not been accepted.

**21. Listing and dealings**

Application will be made to the FCA and the London Stock Exchange for the New CYBG Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities respectively. It is expected that Admission will become effective and that dealings for normal settlement in the New CYBG Shares will commence on the London Stock Exchange at 8.00 a.m. on the first Business Day following the Effective Date.

Steps will be taken to allow for quotation of CHESS Depository Interests representing the New CYBG Shares on the ASX following completion of the Offer.

**22. Overseas Shareholders**

The availability of the Offer and the New CYBG Shares and the distribution of this Announcement to Virgin Money Shareholders who are not resident in the United Kingdom or the United States may be affected by the laws of the relevant jurisdiction in which they are located. Such persons should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction. Virgin Money Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

This Announcement does not constitute an offer for sale for any securities or an offer or an invitation to purchase any securities. Virgin Money Shareholders are advised to read carefully the Scheme Document and related forms of proxy once these have been dispatched.

**23. Documents**

Copies of the following documents will be available promptly on CYBG's and Virgin Money's websites, subject to certain restrictions relating to persons residing in Restricted Jurisdictions, at [www.cybg.com/cybg-update/](http://www.cybg.com/cybg-update/) and <https://uk.virginmoney.com/virgin/investor-relations/offer-from-cybg/> respectively and in any event by no later than noon on 19 June 2018:

- (a) this Announcement;
- (b) the irrevocable undertakings listed in Appendix 3;
- (c) the Virgin Money Confidentiality Agreement;
- (d) the Virgin Holdings Confidentiality Agreement; and
- (e) the Co-operation Agreement.

The content of any website referred to in this Announcement is not incorporated into and does not form part of this Announcement.

## 24. General

The Offer will be on the terms and subject to the conditions set out herein and in Appendix 1, and to be set out in the Scheme Document.

The New CYBG Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing CYBG Shares, including the right to receive and retain in full all dividends and other distributions (if any) made, paid or declared after the date of this Announcement.

The New CYBG Shares to be issued pursuant to the Offer are not being offered to the public by means of this Announcement.

Morgan Stanley is acting as financial adviser and corporate broker to CYBG. Deutsche Bank is also acting as financial adviser to CYBG. Macquarie is acting as corporate broker to CYBG. Deloitte is acting as reporting accountants for CYBG. Clifford Chance LLP is acting as legal adviser to CYBG.

Goldman Sachs is acting as lead financial adviser and corporate broker to Virgin Money. Citi is acting as financial adviser and corporate broker to Virgin Money. Allen & Overy LLP is acting as legal adviser to Virgin Money.

The bases and sources for certain financial information contained in this Announcement are set out in Appendix 2. Details of undertakings received by CYBG and given by the CYBG Directors are set out in Appendix 3. Information relating to the anticipated quantified financial benefits of the Offer is set out in Appendix 4. Certain definitions and terms used in this Announcement are set out in Appendix 5.

For the purposes of Rule 28 of the Takeover Code, quantified financial benefits statements contained in this Announcement are the responsibility of CYBG and the CYBG Directors. Appendix 4 sets out the anticipated quantified financial benefits statements relating to cost savings and synergies arising out of the Offer and provides underlying information and bases of belief. Appendix 4 also includes reports from CYBG's reporting accountant, Deloitte, and its joint financial advisers, Morgan Stanley and Deutsche Bank, in connection with anticipated quantified financial benefits statements, as required pursuant to Rule 28.1(a) of the Takeover Code, and provides underlying information and bases for the accountant's and advisers' respective reports. Each of Deloitte, Morgan Stanley and Deutsche Bank has given and not withdrawn its consent to the publication of its report in this Announcement in the form and context in which it is included.

### **Enquiries:**

#### **CYBG**

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Clifford Chance LLP is retained as legal adviser to CYBG. Allen & Overy LLP is retained as legal adviser to Virgin Money.

### ***Further information***

*This Announcement is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Offer or otherwise. The Offer will be made solely through the Scheme Document, which will contain the full terms and conditions of the Offer, including details of how to vote in respect of the Offer. Any vote or other response to the Offer should be made only on the basis of the information in the Scheme Document.*

*CYBG will prepare the Circular to be distributed to CYBG Shareholders and will also publish the Prospectus containing information on the New CYBG Shares and the Combined Group. CYBG urges Virgin Money Shareholders to read the Scheme Document and the Prospectus carefully when they become available because they will contain important information in relation to the Offer, the New CYBG Shares and the Combined Group. CYBG urges CYBG Shareholders to read the Circular and the Prospectus carefully when they become available. Any vote in respect of the resolutions to be proposed at the Virgin Money Meetings or the CYBG General Meeting to approve the Offer, the Scheme, the Brand Licence Resolution or related matters, should be made only on the basis of the information contained in the Scheme Document, the Prospectus and, in the case of CYBG Shareholders, the Circular.*

*The New CYBG Shares to be issued pursuant to the Offer are not being offered to the public by means of this Announcement.*

*This Announcement does not constitute a prospectus or prospectus equivalent document.*

### ***Important notices relating to financial advisers***

*Morgan Stanley & Co. International plc ("**Morgan Stanley**") which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK is acting as financial adviser exclusively for CYBG and no one else in connection with the matters set out in this Announcement. In connection with such matters, Morgan Stanley, its affiliates and their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to any other person for providing the protections afforded to their clients or for providing advice in connection with the contents of this Announcement or any other matter referred to herein.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and FCA. Details about the*

extent of its authorisation and regulation by the Prudential Regulation Authority, and regulation by the FCA, are available on request or from [www.db.com/en/content/eu\\_disclosures.htm](http://www.db.com/en/content/eu_disclosures.htm). Deutsche Bank AG, acting through its London branch ("**Deutsche Bank**") is acting as financial adviser to CYBG and no other person in connection with this Announcement or any of its contents. Deutsche Bank will not be responsible to any person other than CYBG for providing any of the protections afforded to clients of Deutsche Bank, nor for providing any advice in relation to the matters set out in this Announcement. Neither Deutsche Bank nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Deutsche Bank in connection with the matters set out in this Announcement, any statement contained herein or otherwise.

Macquarie Capital (Europe) Limited ("**Macquarie**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting for CYBG and no-one else in connection with the matters set out in this Announcement and will not be responsible to anyone other than CYBG for providing the protections afforded to customers of Macquarie or for providing advice in relation to the matters set out in this Announcement.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for Virgin Money and no one else in connection with the Offer and will not be responsible to anyone other than Virgin Money for providing the protections afforded to clients of Goldman Sachs International, or for giving advice in connection with the Offer or any matter or arrangement referred to in this Announcement.

Citigroup Global Markets Limited ("**Citi**"), which is authorised by the Prudential Regulation Authority and regulated in the UK by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Virgin Money and no one else in connection with the matters set out in this Announcement and will not regard any other person as its client in relation to the matters in this Announcement and will not be responsible to anyone other than Virgin Money for providing the protections afforded to clients of Citi nor for providing advice in relation to any matter referred to herein.

### **Restricted Jurisdictions**

This Announcement has been prepared in accordance with English law, the Takeover Code, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules and information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England.

Copies of this Announcement and any formal documentation relating to the Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Offer is implemented by way of a Takeover Offer (unless otherwise determined by CYBG and permitted by applicable law and regulation), the Takeover Offer may not be communicated, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce of, or any facilities of a national, state or securities

*exchange of, any Restricted Jurisdiction and the Takeover Offer may not be capable of acceptance by any such use, means, instrumentality or otherwise.*

*Further details in relation to Virgin Money Shareholders in overseas jurisdictions will be contained in the Scheme Document.*

### ***Forward-looking statements***

*This Announcement (including information incorporated by reference in this Announcement), oral statements made regarding the Offer, and other information published by CYBG and Virgin Money contain statements which are, or may be deemed to be, "forward-looking statements". All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on assumptions, expectations, valuations, targets, estimates, forecasts and projections of CYBG and Virgin Money about future events, and are therefore subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied by the forward-looking statements. The forward-looking statements contained in this Announcement include statements relating to the expected effects of the Offer on the CYBG Group, the Virgin Money Group and the Combined Group, the expected timing and scope of the Offer and other statements other than historical facts. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "budget", "targets", "aims", "scheduled", "estimates", "forecast", "intends", "anticipates", "seeks", "prospects", "potential", "possible", "assume" or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Although CYBG and Virgin Money believe that the expectations reflected in such forward-looking statements are reasonable, CYBG and Virgin Money can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risks (known and unknown) and uncertainties (and other factors that are in many cases beyond the control of CYBG and/or Virgin Money) because they relate to events and depend on circumstances that may or may not occur in the future.*

*There are a number of factors that could affect the future operations of the CYBG Group, the Virgin Money Group and/or the Combined Group and that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include the satisfaction (or, where permitted, waiver) of the Conditions, as well as additional factors, such as: domestic and global business and economic conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, industry trends, competition, changes in government and regulation, changes in the policies and actions of governments and/or regulatory authorities (including changes related to capital and tax), changes in political and economic stability (including exposures to terrorist activities, the repercussions of the UK's referendum vote to leave the European Union (EU), the UK's exit from the EU (including any changes to the UK currency), Eurozone instability, any referendum on Scottish independence), disruption in business operations due to reorganisation activities, interest rate, inflation, deflation and currency fluctuations, the timing impact and other uncertainties of future or planned acquisitions or disposals or offers, the inability of the Combined Group to realise successfully any anticipated synergy benefits when the Offer is implemented (including changes to the board and/or employee composition of the Combined Group), the inability of the CYBG Group to integrate successfully the Virgin Money Group's operations and programmes when the Offer is implemented, the Combined Group incurring and/or*

*experiencing unanticipated costs and/or delays (including IT system failures, cyber-crime, fraud and pension scheme liabilities), or difficulties relating to the Offer when the Offer is implemented. In particular, the capital position of the Combined Group is subject to confirmation of the regulatory treatment of the existing capital instruments issued by CYBG and Virgin Money post completion of the Offer, which is dependent on the final legal structure of the Combined Group. Other unknown or unpredictable factors could affect future operations and/or cause actual results to differ materially from those in the forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors.*

*Each forward-looking statement speaks only as of the date of this Announcement. Neither CYBG Group nor Virgin Money Group, nor any of their respective associates or directors, officers or advisers, provides any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur. Forward looking statements involve inherent risks and uncertainties. All forward-looking statements contained in this Announcement are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers are cautioned not to place undue reliance on these forward-looking statements. Other than in accordance with their legal or regulatory obligations (including under the Takeover Code, the Listing Rules and the Disclosure Guidance and Transparency Rules), neither the CYBG Group nor the Virgin Money Group is under or undertakes any obligation, and each of the foregoing expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

#### ***No profit forecasts or estimates***

*Nothing in this Announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings per CYBG Share or Virgin Money Share for the current or future financial years, will necessarily match or exceed the historical published earnings per CYBG Share or Virgin Money Share.*

#### ***Quantified financial benefits***

*Statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither the quantified financial benefit statements nor any other statement in this Announcement should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full year following implementation of the Offer, or in any subsequent period, would necessarily match or be greater than or be less than those of CYBG or Virgin Money for the relevant preceding financial period or any other period.*

#### ***Additional information for US investors***

*US holders of Virgin Money Shares should note that the Offer relates to the securities of a UK company with a listing on the London Stock Exchange and is proposed to be implemented pursuant to a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Offer will be subject to*

*UK procedural and disclosure requirements and practices applicable to a scheme of arrangement involving a target company in England listed on the London Stock Exchange, which are different from the disclosure requirements of the US tender offer and proxy solicitation rules. The financial information included in this Announcement and other documentation related to the Offer has been or will have been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If CYBG exercises its right, in the circumstances provided for in this Announcement, to implement the Offer by way of a Takeover Offer, such Takeover Offer will only be made in the United States if an exemption from the registration requirements of the US Securities Act is available.*

*The New CYBG Shares to be issued pursuant to the Offer have not been registered under the US Securities Act or under any laws or with any securities regulatory authority of any state, district or other jurisdiction, of the United States, and may only be offered or sold in the United States in reliance on an exemption from registration requirements of the US Securities Act including in the case of the proposed scheme of arrangement, Section 3(a)(10) thereunder.*

*Neither the SEC nor any US state securities commission has approved or disapproved of the New CYBG Shares to be issued in connection with the Offer or determined if this Announcement is accurate or complete. Any representation to the contrary is a criminal offence in the United States.*

*It may be difficult for US holders of Virgin Money Shares to enforce their rights and claims arising out of the US federal securities laws, since CYBG and Virgin Money are located in countries other than the United States, and some or all of their officers and directors may be residents of countries other than the United States. US holders of Virgin Money Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.*

### ***Disclosure requirements of the Takeover Code***

*Under Rule 8.3(a) of the Takeover Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the Announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm on the 10th business day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.*

*Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm on the business day following the date of the relevant dealing.*

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.*

### ***Publication on a website***

*This Announcement and the documents required to be published pursuant to Rule 26 of the Takeover Code will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on CYBG's website at [www.cybg.com/cybg-update/](http://www.cybg.com/cybg-update/) and on Virgin Money's website at <https://uk.virginmoney.com/virgin/investor-relations/offer-from-cybg/> promptly and in any event by no later than 12 noon on 19 June 2018. The content of the websites referred to in this Announcement is not incorporated into and does not form part of this Announcement.*

### ***Request for hard copies***

*CYBG Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source) by contacting CYBG's registrars, Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ with an address to which the hard copy may be sent.*

*CYBG Shareholders may, subject to applicable securities laws, also request that all future documents, Announcements and information to be sent in relation to the Offer should be in hard copy form.*

*Virgin Money Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source)*

*by contacting Virgin Money's registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA with an address to which the hard copy may be sent. Virgin Money Shareholders may, subject to applicable securities laws, also request that all future documents, Announcements and information to be sent in relation to the Offer should be in hard copy form.*

*If you are in any doubt about the contents of this Announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

*Please be aware that addresses, electronic addresses and certain information provided by Virgin Money Shareholders, persons with information rights and other relevant persons for the receipt of communications from Virgin Money may be provided to CYBG during the offer period (as defined in the Takeover Code) as required under section 4 of Appendix 4 to the Takeover Code.*

### ***Rounding***

*Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.*

### ***Registration***

*CYBG is registered in England and Wales (company number: 09595911) and as a foreign company in Australia (ARBN 609 948 281) and has its registered office at 20 Merrion Way, Leeds, West Yorkshire LS2 8NZ.*

## APPENDIX 1

### CONDITIONS AND CERTAIN FURTHER TERMS OF THE OFFER

The Offer will comply with the applicable rules and regulations of the FCA, the London Stock Exchange and the Takeover Code, will be governed by English law and will be subject to the jurisdiction of the English courts. In addition, it will be subject to the following conditions and to the terms and conditions set out in the Scheme Document:

1. The Scheme becoming unconditional and Effective, and all other Conditions being fulfilled or (if capable of waiver) waived, subject to the Takeover Code, by no later than 11.59 p.m. on the Long Stop Date or such later date (if any) as CYBG and Virgin Money may agree and (if required) the Panel and the Court allow.

#### **Scheme approval**

2. The Scheme will be subject to the following Conditions:
  - (a)
    - (i) its approval by a majority in number representing not less than 75 per cent. in value of Virgin Money Shareholders (or the relevant class or classes thereof, if applicable) who are on the register of members of Virgin Money at the Voting Record Time, present and voting, whether in person or by proxy, at the Court Meeting and at any separate class meeting which may be required (or any adjournment thereof), and
    - (ii) such Court Meeting and any separate class meeting which may be required by the Court or any adjournment of any such meeting being held on or before the 22nd day after the expected date of the Court Meeting to be set out in the Scheme Document in due course (or such later date as may be agreed between CYBG and Virgin Money and the Court may allow); and
  - (b)
    - (i) all resolutions necessary to approve and implement the Scheme being duly passed by the requisite majority or majorities at the Virgin Money General Meeting (or any adjournment thereof) (but excluding any resolution relating to any amendment of Virgin Money's remuneration policy), and
    - (ii) the Virgin Money General Meeting or any adjournment of that meeting being held on or before the 22nd day after the expected date of the Virgin Money General Meeting to be set out in the Scheme Document in due course (or such later date as may be agreed between CYBG and Virgin Money and the Court may allow); and
  - (c)
    - (i) the sanction of the Scheme with or without modification (but subject to such modification being acceptable to CYBG and Virgin Money) by

the Court and the delivery of the office copy of the Court Order to the Registrar of Companies; and

- (ii) the Court Hearing being held on or before the 22nd day after the expected date of the Court Hearing to be set out in the Scheme Document in due course (or such later date as may be agreed between CYBG and Virgin Money and the Court may allow).

#### **CYBG shareholder authorities**

- 3. The passing at the CYBG General Meeting (or any adjournment thereof) by the requisite majority of CYBG Shareholders of such resolution or resolutions as are necessary to approve, implement and effect the Offer and the acquisition of Virgin Money Shares pursuant to the Offer or otherwise (as such resolutions may be set out in the Circular in due course, including resolutions to approve the Offer in accordance with the requirements under Listing Rule 10.5.1R(2) and authorise the creation and allotment of the New CYBG Shares).

#### **Brand Licence**

- 4.
  - (a) The passing at the Virgin Money General Meeting (or any adjournment thereof) of an ordinary resolution of the Independent Virgin Money Shareholders voting, in person or by proxy, on a poll to approve the Brand Licence Agreement for the purposes of Note 2 on Rule 16 of the Takeover Code;
  - (b) the passing at the Virgin Money General Meeting (or any adjournment thereof) of an ordinary resolution of the Independent Virgin Money Shareholders voting, in person or by proxy, on a poll to approve the Brand Licence Agreement for the purposes of Listing Rule 11.1.7R(3) (if required); and
  - (c) the Existing Brand Licence Agreement has not been terminated and notice has not been served to terminate such agreement.

#### **Admission to listing on the London Stock Exchange of consideration shares**

- 5.
  - (a) The FCA having acknowledged to CYBG or its agent (and such acknowledgement not having been withdrawn) that the application for the Admission of the New CYBG Shares to the Official List with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject ("**listing conditions**")) Admission will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions have been satisfied; and
  - (b) the London Stock Exchange having acknowledged to CYBG or its agent (and such acknowledgement not having been withdrawn) that the New CYBG

Shares will be admitted to trading on the Main Market of the London Stock Exchange.

### **CMA Clearance**

6. The CMA:
  - (a) deciding, on terms reasonably satisfactory to CYBG, not to make a Phase 2 CMA Reference; or
  - (b) as at the date on which all other Conditions (with the exception of sanction of the Scheme by the Court pursuant to Condition 2 above) of the Offer are satisfied or waived, not having requested submission of a Merger Notice or commenced a Phase 1 CMA review by indicating that the Initial Period has begun.

### **FSMA approvals**

7. In respect of CYBG, Virgin Holdings and each other person required to give a notice under section 178 of FSMA in connection with the Offer, the appropriate regulator (as defined under section 178(2A) of FSMA) of each UK authorised person (as defined in section 191G FSMA) over which the Offer contemplates an acquisition of or increase in control:
  - a) giving notice for the purposes of section 189(4)(a) of FSMA that it has determined to approve such acquisition or increase in control;
  - b) giving notice for the purpose of section 189(4)(b)(i) of FSMA that it has determined to approve such acquisition of or increase in control, on terms or conditions satisfactory to CYBG (acting reasonably); or
  - c) being treated, by virtue of section 189(6) of FSMA, as having approved such acquisition of or increase in control,

where references to FSMA are read, where applicable, with the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009.

### **Other Third Party clearances**

8. Other than in respect of Conditions 6 and 7, no central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction (each a "**Third Party**") having given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision, order or change to published practice and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:

- (a) make the Offer, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Virgin Money Group by any member of the Wider CYBG Group void, illegal and/or unenforceable under the laws of any relevant jurisdiction, or otherwise directly or indirectly prevent, prohibit, or restrain, restrict, impede, challenge, delay or otherwise interfere with the implementation of, or impose additional material conditions or obligations with respect to, the Offer or the acquisition of any shares or other securities in, or control or management of, any member of the Wider Virgin Money Group by any member of the Wider CYBG Group or require amendment of the Scheme;
- (b) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider CYBG Group directly or indirectly to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or other securities in Virgin Money (or any member of the Wider Virgin Money Group) or on the ability of any member of the Wider Virgin Money Group or any member of the Wider CYBG Group directly or indirectly to hold or exercise effectively any rights of ownership in respect of shares or other securities (or the equivalent) in, or to exercise management control over, any member of the Wider Virgin Money Group;
- (c) require, prevent or materially delay the divestiture or materially alter the terms envisaged for such divestiture by any member of the Wider CYBG Group or by any member of the Wider Virgin Money Group of all or any part of their businesses, assets or property or impose any material limitation on the ability of all or any of them to conduct their businesses (or any part thereof) or to own, control or manage any of their assets or properties or any part thereof;
- (d) other than pursuant to sections 974 to 991 of the 2006 Act and the implementation of the Scheme, require any member of the Wider CYBG Group or the Wider Virgin Money Group to acquire or offer to acquire any shares, other securities (or the equivalent) or interest in any member of the Wider Virgin Money Group owned by any third party;
- (e) require, prevent or materially delay a divestiture by any member of the Wider CYBG Group of any shares or other securities (or the equivalent) in any member of the Wider Virgin Money Group;
- (f) result in any member of the Wider Virgin Money Group ceasing to be able to carry on business under any name under which it presently carries on business;
- (g) impose any limitation on the ability of any member of the Wider CYBG Group or any member of the Wider Virgin Money Group to integrate or co-ordinate all or any part of their respective businesses with all or any part of the business of any other member of the Wider CYBG Group and/or the Wider Virgin Money Group in a manner which is materially adverse to the Wider CYBG Group and/or the Wider Virgin Money Group, in either case, taken as a whole or in the context of the Offer; or
- (h) otherwise adversely affect the business, assets, value, profits, prudential requirements (including regulatory capital requirements), prospects or

operational performance of any member of the Wider Virgin Money Group or any member of the Wider CYBG Group Offer to an extent which is material in the context of the Wider CYBG Group or the Wider Virgin Money Group, in either case taken as a whole.

If there are any waiting periods (including any extensions thereof) during which a Third Party could take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Offer or proposed acquisition of any Virgin Money Shares or otherwise intervene, this waiting period must have expired, lapsed or been terminated.

9. All notifications, filings or applications which are necessary or reasonably considered appropriate by CYBG having been made in connection with the Offer and all necessary waiting and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory and regulatory obligations in any jurisdiction having been complied with and all Authorisations which are necessary or reasonably considered appropriate by CYBG in any jurisdiction for or in respect of the Offer or the proposed acquisition of any shares or other securities in, or control of, Virgin Money by any member of the Wider CYBG Group having been obtained in terms and in a form reasonably satisfactory to CYBG from all appropriate Third Parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider Virgin Money Group or the Wider CYBG Group has entered into contractual arrangements and all such Authorisations which are necessary or reasonably considered appropriate by CYBG to carry on the business of any member of the Wider Virgin Money Group in any jurisdiction having been obtained in each case where the direct consequence of a failure to make such notification or filing or to wait for the expiry, lapse or termination of any such waiting or other time period or to comply with such obligation or obtain such Authorisation would be unlawful in any relevant jurisdiction or have a material adverse effect on the Wider Virgin Money Group, any member of the CYBG Group or the ability of CYBG to implement the Scheme and all such Authorisations remaining in full force and effect at the time at which the Scheme becomes otherwise unconditional in all respects and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations.

#### **Confirmation of absence of adverse circumstances**

10. Except as Disclosed, there being no provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Wider Virgin Money Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or be subject or any event or circumstance which, in each case as a consequence of the Offer or the proposed acquisition by any member of the Wider CYBG Group of any shares or other securities in Virgin Money or because of a change in the control or management of any member of the Wider Virgin Money Group or otherwise, would or might reasonably be expected to result in:
  - (a) any monies borrowed by, or any other indebtedness, actual or contingent of, or any grant available to, any member of the Wider Virgin Money Group being or becoming repayable, or capable of being declared repayable immediately or

prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;

- (b) the rights, liabilities, obligations, interests or business of any member of the Wider Virgin Money Group or any member of the Wider CYBG Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Virgin Money Group or any member of the Wider CYBG Group in or with any other firm or company or body or person (or any agreement or arrangement relating to any such business or interests) being or likely to become terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken or arising thereunder;
- (c) any member of the Wider Virgin Money Group ceasing to be able to carry on business under any name under which it presently carries on business;
- (d) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider Virgin Money Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Virgin Money Group;
- (e) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Virgin Money Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen), becoming enforceable;
- (f) the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Virgin Money Group being materially prejudiced or adversely affected;
- (g) the creation or acceleration of any material liability (actual or contingent) by any member of the Wider Virgin Money Group, other than trade creditors or other liabilities incurred in the ordinary course of business; or
- (h) any liability of any member of the Wider Virgin Money Group to make any severance, termination, bonus or other payment to any of its directors or other officers.

**No material transactions, claims or changes in the conduct of the business of the Virgin Money Group**

11. Except as Disclosed, no member of the Wider Virgin Money Group having since 31 December 2017:
- (a) save as between Virgin Money and wholly-owned subsidiaries of Virgin Money or for Virgin Money Shares issued pursuant to the exercise of options or vesting of awards granted before 18 June 2018 in the ordinary course, issued or agreed to issue or authorised or proposed or announced its intention

to authorise or propose the issue of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities;

- (b) save for the final dividend of 4.10 pence in respect of the year ending 31 December 2017 and the interim dividend of up to 2.3 pence (net) per Virgin Money Share in respect of the half year ending 30 June 2018, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus issue, dividend or other distribution (whether payable in cash or otherwise) other than to Virgin Money or one of its wholly-owned subsidiaries;
- (c) save for Intra-Virgin Money Group Transactions, demerged from or acquired any body corporate, partnership or business or acquired or disposed of, or transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so, in each case, (i) other than in the ordinary course of business and (ii) which is material in the context of the Wider Virgin Money Group taken as a whole or in the context of the Offer;
- (d) save for Intra-Virgin Money Group Transactions, made, authorised, proposed or announced an intention to propose any change in its loan capital in each case, to the extent which is material in the context of the Wider Virgin Money Group taken as a whole or in the context of the Offer;
- (e) issued, authorised or proposed or announced an intention to authorise or propose the issue of, or made any change in or to the terms of, any debentures or (save as between Virgin Money and its wholly-owned subsidiaries or between such wholly-owned subsidiaries), save in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability;
- (f) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary, any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, unusual or onerous nature, or which involves or could reasonably be expected to involve an obligation of a nature or magnitude or which is other than in the ordinary course of business and which, in any such case, material in the context of the Virgin Money Group or in the context of the Offer, or which is or is reasonably likely to be restrictive on the business of any member of the Wider Virgin Money Group or Wider CYBG Group;
- (g) entered into any licence or other disposal of intellectual property rights of any member of the Wider Virgin Money Group which are material in the context of the Wider Virgin Money Group or which is other than in the ordinary course of business;
- (h) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary the terms of or made any offer

(which remains open for acceptance) to enter into or vary the terms of, any contract, commitment, arrangement or any service agreement with any director or senior executive of the Wider Virgin Money Group;

- (i) proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme, or other benefit relating to the employment or termination of employment, of any employee of the Wider Virgin Money Group;
- (j) procured the trustees of any pension scheme or other retirement or death benefit arrangement established for the directors, former directors, employees or former employees of any entity in the Wider Virgin Money Group or their dependants (a "**Relevant Pension Plan**"), or any such trustees having taken any action since 31 December 2017, to:
  - (I) make or agree to any significant change to: (a) the terms of the trust deeds, rules, policy or other governing documents constituting any Relevant Pension Plan; (b) the basis on which benefits accrue, pensions which are payable or the persons entitled to accrue or be paid benefits, under any Relevant Pension Plan; (c) the basis on which the liabilities of any Relevant Pension Plan are funded or valued; or (d) the basis or rate of employer contribution to a Relevant Pension Plan, in each case other than as required by applicable law;
  - (II) carry out any act: (a) which would or could reasonably be expected to lead to the commencement of the winding up of any Relevant Pension Plan; (b) which would or might reasonably create a material debt owed by an employer to any Relevant Pension Plan; (c) which would or might accelerate any obligation on any employer to fund or pay additional contributions to any Relevant Pension Plan, in each case other than as required by applicable law;
- (k) entered into, implemented or effected, or authorised, proposed or announced its intention to implement or effect, any joint venture, asset or profit sharing arrangement, partnership, composition, assignment, reconstruction, amalgamation, commitment, scheme or other transaction or arrangement other than the Scheme;
- (l) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect of the matters mentioned in sub-paragraph (a) above, made any other change to any part of its share capital;
- (m) waived, compromised or settled any claim otherwise than in the ordinary course of business and which is material in the context of the Wider Virgin Money Group taken as a whole;
- (n) made any alteration to its articles of association or other constitutional documents;
- (o) (other than in respect of a member of the Wider Virgin Money Group which is dormant and was solvent at the relevant time) taken or proposed any steps,

corporate action or had any legal proceedings instituted or threatened against it in relation to the suspension of payments, a moratorium of any indebtedness, its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, receiver, manager, administrative receiver, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction or had any such person appointed;

- (p) been unable, or admitted in writing that it is unable, to pay its debts or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (q) entered into any contract, commitment, agreement or arrangement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition and which is material in the context of the Wider Virgin Money Group taken as a whole or in the context of the Offer;
- (r) terminated or varied the terms of any agreement or arrangement between any member of the Wider Virgin Money Group and any other person in a manner which would or might be expected to have a material adverse effect on the financial position of the Virgin Money Group taken as a whole; or
- (s) having taken (or agreed or proposed to take) any action which requires, or would require, the consent of the Panel or the approval of Virgin Money Shareholders in general meeting in accordance with, or as contemplated by, Rule 21.1 of the Takeover Code.

#### **No material adverse change**

12. Except as Disclosed, since 31 December 2017:

- (a) there having been no adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Virgin Money Group which, in any such case, is material in the context of the Wider Virgin Money Group or the Wider CYBG Group taken a whole or in the context of the Offer and no circumstances have arisen which would or might reasonably be expected to result in any such adverse change;
- (b) no material litigation, arbitration proceedings, prosecution or other material legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider Virgin Money Group to which any member of the Wider Virgin Money Group is or may become a party (whether as claimant or defendant or otherwise) and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Virgin Money Group having

been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider Virgin Money Group;

- (c) no contingent or other liability having arisen, increased or become apparent which might be likely adversely to affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider Virgin Money Group to an extent which is material to the Virgin Money Group taken as a whole or in the context of the Offer;
- (d) no steps having been taken and no omissions having been made which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Virgin Money Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and likely to have an adverse effect on the Wider Virgin Money Group taken as a whole or in the context of the Offer; and

13. Except as Disclosed, since 31 December 2017 CYBG not having discovered:

- (a) that any financial, business or other information concerning the Wider Virgin Money Group publicly announced or disclosed to any member of the Wider CYBG Group at any time by or on behalf of any member of the Wider Virgin Money Group or to any of their advisers is materially misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make that information not materially misleading; or
- (b) that any member of the Wider Virgin Money Group is subject to any material liability, contingent or otherwise, which is not disclosed in the Annual Report and Accounts of Virgin Money.

### **Intellectual Property**

14. Save as Disclosed, no circumstance having arisen or ceasing to exist, or no event having occurred, in each case, in relation to any intellectual property owned or used by any member of the Wider Virgin Money Group which is reasonably anticipated to have a material adverse effect on the Wider Virgin Money Group taken as a whole or is otherwise material in the context of the Offer.

### **Anti-corruption and sanctions**

15. Save as Disclosed, CYBG not having discovered that:

- (a) any past or present member, director, officer or employee of the Wider Virgin Money Group or any person that performs or has performed services for or on behalf of any such company is or has at any time engaged in any activity, practice or conduct (or omitted to take any action) in contravention of the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, as amended or any other applicable anti-corruption legislation; or
- (b) any past or present member, director, officer or employee of the Wider Virgin Money Group or any person who has performed services for and on behalf of any such company has engaged in any activity or business with, or made any

investments in, or made any payments to any government, entity or individual covered by any of the economic sanctions administered by the United Nations or the European Union (or any of their respective member states) or the United States Office of Foreign Assets Control or any other governmental or supranational body or authority in any jurisdiction.

### **No criminal property**

16. Save as Disclosed, CYBG not having discovered that any asset of any member of the Wider Virgin Money Group constitutes criminal property as defined by section 340(3) of the Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition).

### **Part 2: Waiver and invocation of the Conditions**

1. Subject to the requirements of the Panel in accordance with the Takeover Code, CYBG reserves the right to waive, in whole or in part, all or any of the above Conditions, except Conditions 1, 2, 3, 4(a) and (b) and 5.
2. Conditions 2(a) and (b) and 3 to 16 (inclusive) must each be fulfilled by, or (if capable of waiver) be waived by, CYBG by no later than 11.59 p.m. on the date immediately preceding the date of the Court Hearing. The Offer will lapse if the Scheme does not become Effective and all other Conditions are fulfilled or (if capable of waiver) waived by 11.59 p.m. on the Long Stop Date (or such later date as CYBG and Virgin Money may agree and (if required) the Panel and the Court allow).
3. Under Rule 13.5(a) of the Takeover Code, CYBG may not invoke a Condition to the Offer so as to cause the Offer not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the Condition are of material significance to CYBG in the context of the Offer. Conditions 1 (*Long Stop Date*), 2 (*Scheme Approval*), 3 (*CYBG Shareholder authorities*), 4(a) and (b) (*Brand Licence*), 5 (*Admission to listing on the London Stock Exchange of consideration shares*) and 6 (*CMA Clearance*) and, if applicable, any acceptance condition if the Offer is implemented by means of a Takeover Offer, are not subject to this provision of the Takeover Code.
4. CYBG shall be under no obligation to waive (if capable of waiver) or treat as fulfilled any of the Conditions by a date earlier than the latest date specified above for the fulfilment or waiver thereof, notwithstanding that any other Conditions may at any earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

### **Part 3: Implementation by way of Takeover Offer**

CYBG reserves the right, with the consent of the Panel and subject to the terms of the Co-operation Agreement, to elect to implement the Offer by way of a Takeover Offer as an alternative to the Scheme. In such event, the Offer will be implemented on the same terms (subject to appropriate amendments including (without limitation) the inclusion of an acceptance condition set at 90 per cent. (or such lesser percentage as CYBG may, with the agreement of Virgin Money, and subject to the rules of the Takeover Code and with the consent of the Panel, decide) of the shares to which the Offer relates) as those which would apply to the Scheme. Further, if sufficient

acceptances of such Takeover Offer are received and/or sufficient Virgin Money Shares are otherwise acquired, it is the intention of CYBG to apply the provisions of the 2006 Act to acquire compulsorily any outstanding Virgin Money Shares to which such Takeover Offer relates.

**Part 4: Certain further terms of the Offer**

1. If CYBG is required by the Panel to make an offer for Virgin Money Shares under the provisions of Rule 9 of the Takeover Code, CYBG may make such alterations to any of the above Conditions as are necessary to comply with the provisions of that Rule.
2. Fractions of New CYBG Shares will not be allotted or issued to Virgin Money Shareholders and entitlements will be rounded down to the nearest whole number of New CYBG Shares and all fractions of New CYBG Shares will be aggregated and sold in the market as soon as practicable after the Offer becomes Effective. The net proceeds of such sale (after deduction of all expenses and commissions incurred in connection with the sale) will be distributed in due proportions to Virgin Money Shareholders who would otherwise have been entitled to such fractions, save that if the entitlement of any Virgin Money Shareholder in respect of the proceeds of sale of fractional entitlements amounts to less than £5, such proceeds will be retained for the benefit of the Combined Group.
3. The Virgin Money Shares will be acquired pursuant to the Offer fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including without limitation voting rights and the right to receive and retain in full all dividends and other distributions (if any) announced, declared, made or paid on or after the date of this Announcement. Save for an interim dividend of up to 2.3 pence (net) per Virgin Money Share in respect of the period ending 30 June 2018, if any dividend or other distribution is announced, declared, made or paid in respect of the Virgin Money Shares on or after the date of this Announcement, CYBG reserves the right to reduce the terms of the Offer by the aggregate amount of any such dividend or other distribution. To the extent that a dividend or other distribution is announced, declared, made or paid and is or will be (i) transferred pursuant to the Offer on a basis which entitles CYBG alone to receive it and to retain it, or (ii) cancelled, the price payable under the Offer in respect of the Virgin Money Shares will not be subject to change in accordance with this condition.
4. The Offer will lapse if there is a Phase 2 CMA Reference before the Virgin Money Meetings. In such event, Virgin Money will not be bound by the terms of the Scheme.
5. The Offer will lapse if the European Commission either initiates proceedings under Article 6(1)(c) of Council Regulation (EC) 139/2004 or makes a referral to a competent authority of the United Kingdom under Article 9(3)(b) of that Regulation and there is a subsequent Phase 2 CMA Reference, in either case before the Virgin Money Meetings. In such event, Virgin Money will not be bound by the terms of the Scheme.

6. The Offer will be governed by English law and be subject to the jurisdiction of the English courts and to the Conditions set out in this Announcement and in the Scheme Document.
7. The New CYBG Shares to be issued pursuant to the Offer have not been, and will not be, listed on any stock exchange other than the London Stock Exchange, and the New CYBG Shares have not been, nor will they be, registered under the US Securities Act or under any laws of any state, district or other jurisdiction, of the United States, nor have clearances been, nor will they be, obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus has been, or will be, filed, or registration made, under any securities law of any province or territory of Canada, nor has a prospectus in relation to the New CYBG Shares been, nor will one be, lodged with, or registered by, the Australian Securities and Investments Commission, nor have any steps been taken, nor will any steps be taken, to enable the New CYBG Shares to be offered in compliance with applicable securities laws of Japan and no regulatory clearances in respect of the New CYBG Shares have been, or will be, applied for in any other jurisdiction. Accordingly, unless an exemption under relevant securities laws is available, the New CYBG Shares are not being, and may not be, offered, sold, resold, delivered or distributed, directly or indirectly, in, into or from the United States or any other Restricted Jurisdiction or to, or for the account or benefit of, any US Person or resident of any other Restricted Jurisdiction. It is currently expected that the New CYBG Shares will be issued in connection with a scheme of arrangement and therefore will be exempt from the registration requirements of the US Securities Act pursuant to section 3(a)(10) thereunder. Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved of the New CYBG Shares, or determined if this Announcement is accurate or complete. Any representation to the contrary is a criminal offence.

## **APPENDIX 2**

### **SOURCES AND BASES OF INFORMATION**

Unless otherwise stated in this Announcement:

1. Under the terms of the Offer, CYBG will acquire the entire issued and to be issued ordinary share capital of Virgin Money on the basis of an exchange ratio of 1.2125 New CYBG Shares for each Virgin Money Share, which implies that Virgin Money Shareholders will own approximately 38 per cent. of the Combined Group. This is based on the issuance of 546,915,829 New CYBG Shares for Virgin Money's 451,064,601 ordinary shares on a fully diluted basis (comprising 445,442,008 Virgin Money Shares currently in issue, at 15 June 2018, being the latest Business Day before the date of this Announcement, and a maximum of 5,622,593 Virgin Money Shares which may be issued on or after the date of this Announcement on the exercise of options or vesting of awards under the Virgin Money Share Plans (based on outstanding options and awards of 7,601,912 as at 15 June 2018 less 1,979,319 shares held by Virgin Money's Employee Benefit Trust, Wealth Nominees Limited as at 15 June 2018)), giving a pro forma share count for the Combined Group of 1,432,106,805.
2. Based on an exchange ratio of 1.2125 New CYBG Shares in exchange for each Virgin Money Share and the Closing Price of 306 pence per CYBG Share on 15 June 2018 (being the last Business Day before the date of this Announcement), the Offer values each Virgin Money Share at 371 pence and Virgin Money's ordinary shares on a fully diluted basis at approximately £1.7 billion.
3. Based on 885,190,976 CYBG Shares in issue as of 15 June 2018 and the Closing Price of 306 pence per CYBG share on 15 June 2018 (being the last Business Day before the date of this Announcement), the market capitalisation of CYBG is approximately £2.7 billion.
4. On the date of this Announcement CYBG holds no ordinary shares in treasury.
5. The premium calculations to the price per Virgin Money Share have been calculated by reference to:
  - (a) the Closing Price of a Virgin Money Share of 312 pence on 4 May 2018 (being the last Business Day prior to the commencement of the Offer Period); and
  - (b) the three calendar month volume weighted average price of a Virgin Money Share of 276 pence from 5 February 2018 to 4 May 2018.
6. The volume weighted average prices of a Virgin Money Share are derived from data provided by Bloomberg and refer to trading on the London Stock Exchange only.
7. Unless otherwise stated, the balance sheet financial information relating to CYBG is extracted from the audited consolidated financial statements of CYBG for the period ending 31 March 2018, prepared in accordance with IFRS. Unless otherwise stated, the income statement financial information relating to CYBG is extracted from the

audited consolidated financial statements of CYBG for the year to 30 September 2017, prepared in accordance with IFRS.

8. Unless otherwise stated, the balance sheet and income statement financial information relating to Virgin Money is extracted from the audited consolidated financial statements of Virgin Money for the period ending 31 December 2017, prepared in accordance with IFRS.
9. Unless otherwise stated, all prices for Virgin Money Shares and CYBG Shares have been derived from the Daily Official List and represent Closing Prices on the relevant date(s).
10. Historical pro forma financial information relating to the Combined Group is unaudited and has been derived from the historical financial information relating to CYBG and Virgin Money.
11. The synergy numbers are unaudited. Further information underlying the Quantified Benefits Statement contained in this Announcement is provided in Appendix 4 to this Announcement.
12. The reference in paragraph 7 of this Announcement to "*CYBG intends that the Combined Group will remain a committed supporter of the Women in Finance Charter and will continue to take action to reduce its gender pay gap in line with the Annual Report and Accounts of CYBG. The Combined Group will remain transparent on its reporting of progress both on the Women in Finance Charter and its gender pay gap*" is a reference to the intentions set out on page 31 of the Annual Report and Accounts of CYBG.
13. Certain figures included in this Announcement have been subject to rounding adjustments.

**APPENDIX 3**  
**DETAILS OF IRREVOCABLE UNDERTAKINGS**

**1. Virgin Money Directors**

The following Virgin Money Directors have given irrevocable undertakings to vote in favour of the resolutions relating to the Offer at the Virgin Money Meetings in respect of their own beneficial holdings (or those Virgin Money Shares over which they have control) of Virgin Money Shares:

| <b>Name</b>       | <b>Total Number of Virgin Money Shares</b> | <b>Percentage of existing issued share capital</b> |
|-------------------|--|--|
| Jayne-Anne Gadhia | 2,253,876                                  | 0.506%   |
| Peter Bole        | 111,093                                    | 0.025%   |
| Norman McLuskie   | 90,080                                     | 0.020%   |
| Colin Keogh       | 157,260                                    | 0.035%   |

The obligations of the Virgin Money Directors under the irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) the Scheme Document is not published within 28 days (or such longer period as the Panel may agree) of the date of the Announcement;
- (b) CYBG publicly announces before the Scheme Document is posted, that it does not intend to proceed with the Offer and no new, revised or replacement Scheme or Takeover Offer is contemporaneously announced by CYBG and/or Virgin Money;
- (c) a competing offer is made for Virgin Money which becomes effective (if implemented by way of scheme of arrangement) or unconditional (if implemented by way of Takeover Offer);
- (d) the Circular does not contain a unanimous recommendation from the Virgin Money Board to Virgin Money Shareholders to approve the Resolutions proposed at the Virgin Money General Meeting;
- (e) the Scheme lapses or is withdrawn in accordance with its terms and CYBG publicly confirms that it does not intend to proceed with the Offer or to implement the Offer by way of a Takeover Offer; or
- (f) the Scheme has not become Effective by 6.00 p.m. on the Long Stop Date (or such later time or date as agreed between CYBG and Virgin Money, with the approval of the Court and/or the Panel if required).

## 2. Virgin Holdings

Virgin Holdings has given an irrevocable undertaking to vote in favour of the Scheme at the Court Meeting and the Resolutions (excluding the Brand Licence Resolution) at the Virgin Money General Meeting in respect of its holdings of Virgin Money Shares:

| <b>Name</b>     | <b>Total Number of Virgin Money Shares</b> | <b>Percentage of existing issued share capital</b> |
|-----------------|--|--|
| Virgin Holdings | 155,120,454                                | 34.82  |

The obligations of Virgin Holdings under the irrevocable undertaking shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) the Scheme Document is not published within 28 days (or such longer period as the Panel may agree) of the date of the Announcement;
- (b) the Scheme lapses or is withdrawn in accordance with its terms and CYBG publicly confirms that it does not intend to proceed with the Offer or to implement the Offer by way of a Takeover Offer;
- (c) in circumstances where CYBG has exercised its right to implement the Offer by way of a Takeover Offer, the Takeover Offer lapses or is withdrawn;
- (d) the Scheme has not become effective by 6.00 p.m. on the Long Stop Date (or such later time or date as agreed between CYBG and Virgin Money, with the approval of the Court and/or the Panel if required); or
- (e) at any time prior to the Scheme becoming effective, a third party announces a firm intention to make an offer to acquire the entire issued and to be issued ordinary share capital of Virgin Money, which in Virgin Holdings' reasonable opinion represents an improvement to the terms of the Offer.

## 3. CYBG Directors

The following CYBG Directors have given irrevocable undertakings to vote in favour of the resolutions relating to the Offer at the CYBG General Meeting in respect of their own beneficial holdings of CYBG Shares (or those CYBG Shares over which they have control):

| <b>Name</b>    | <b>Total Number of CYBG Shares</b> | <b>Percentage of existing issued share capital</b> |
|----------------|------------------------------------|--|
| David Bennett  | 16,386                             | 0.002%   |
| David Browne   | 5,000                              | 0.001%   |
| Debbie Crosbie | 110,475                            | 0.012%   |
| David Duffy    | 144,846                            | 0.016%   |

|               |         |        |
|---------------|---------|--------|
| Adrian Grace  | 16,220  | 0.002% |
| Fiona Macleod | 7,000   | 0.001% |
| Jim Pettigrew | 50,000  | 0.006% |
| Ian Smith     | 107,061 | 0.012% |
| Tim Wade      | 20,000  | 0.002% |

The obligations of the CYBG Directors under the irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) the Scheme lapses or is withdrawn in accordance with its terms and CYBG publicly confirms that it does not intend to proceed with the Offer or to implement the Offer by way of a Takeover Offer; or
- (b) the Scheme has not become effective by the Long Stop Date (or such later time or date as agreed between CYBG and Virgin Money, with the approval of the Court and/or the Panel if required).

## APPENDIX 4 QUANTIFIED FINANCIAL BENEFITS STATEMENT

### PART A - QUANTIFIED FINANCIAL BENEFITS STATEMENT

Paragraph 4 of this Announcement contains statements of estimated cost savings and synergies expected to arise from the Offer (together, the "**Quantified Financial Benefits Statement**").

A copy of the Quantified Financial Benefits Statement is set out below:

*The CYBG Directors, having reviewed and analysed the potential synergies of the Combined Group, as well as taking into account the factors they can influence, believe that the Combined Group can deliver shareholder value through expected realisation of approximately £120 million of annual pre-tax cost synergies. Incremental to these quantified cost synergies, the Combined Group will benefit from avoiding planned future Virgin Money digital bank running costs, given the existing CYBG capabilities.*

*It is currently envisaged that the approximately £120 million of annual pre-tax cost synergies will be realised principally from:*

*i) **Organisational design:** Reduction of FTEs across the Combined Group, removing duplication of senior management roles, delivering approximately £35 million of run rate cost savings.*

*ii) **Central cost management:** Approximately £35 million of run rate cost savings generated by rationalisation of the Combined Group's central functions locations; with scale efficiencies in IT, central procurement costs, third party outsourcing and other operating expenses. Central cost management savings are net of incremental trademark licence fees related to the use of the Virgin Money brand.*

*iii) **Operational efficiency:** Reduction of FTEs across the Combined Group through removing duplication of central functions roles, integrating customer service operating models and driving efficiencies through increased digitisation and automation, delivering approximately £35 million of run rate cost savings.*

*iv) **Network efficiencies:** Optimisation of the Combined Group's branch network, delivering approximately £15 million of run rate cost savings.*

*The run rate of these annual pre-tax cost synergies will be fully achieved by the end of the financial year ending 30 September 2021, with approximately 28 per cent. achieved as at 30 September 2019 and approximately 67 per cent. as at 30 September 2020. It is therefore expected that the first year of full run rate cost synergies will be the financial year ending 30 September 2022. The cost synergies recognised during the financial year ending 30 September 2019 are expected to be approximately £20 million and approximately £50 million recognised during the financial year ending 30 September 2020.*

*The identified recurring cost synergies will accrue as a direct result of the Combination and would not be achieved on a standalone basis.*

*It is expected that the realisation of these cost synergies would result in one-off pre-tax costs to achieve of approximately £240 million. These are expected to be phased broadly evenly across a three year period: employee restructuring costs and IT migration strategy phased over all three years following completion of the Offer, contract break fees to be recognised in the third year following completion of the Offer, and the optimisation of branches and office locations to be achieved in years two and three following completion of the Offer. Aside from these one-off exceptional costs and the incremental trademark licence fees incorporated into the assessed cost synergies, no material dis-synergies are expected in connection with the Combination.*

*These statements relating to identified synergies and estimated savings relate to future actions or circumstances which by their nature involve risks, uncertainties and contingencies. As a consequence, the identified synergies and estimated savings referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.*

Further information on the bases of belief supporting the Quantified Financial Benefits Statement, including the principal assumptions and sources of information, is set out below.

### **Bases of Belief and Principal Assumptions**

Following initial discussions regarding the Combination, a CYBG synergy development team was established to assess the potential synergies arising from the Combination.

The team, which comprises senior CYBG strategy and financial personnel has worked to identify, challenge and quantify potential synergies as well as the potential costs to achieve such synergies. The team has worked with the relevant functional heads and other personnel at both CYBG and Virgin Money to test synergies assumptions and identify synergy initiatives.

In preparing the Quantified Financial Benefits Statement, both CYBG and Virgin Money have shared certain operating and financial information to facilitate the analysis in support of evaluating the potential synergies available from the creation of the Combined Group. However, as is typical of these exercises, confidentiality and regulatory considerations have limited the extent of the sharing of data and information. Where the sharing of data has been limited, the synergy development team has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have, in turn, been informed by the CYBG management's industry experience and knowledge of the existing businesses.

The cost base used for the quantified financial benefits exercise is the combination of the CYBG cost base contained in its 30 September 2017 full year results and the Virgin Money cost base contained in its 31 December 2017 full year results.

In addition to these potential quantified synergies, the CYBG Directors believe that further value can be created through realisation of revenue and funding synergies, as well as the avoided planned future digital bank running costs. These incremental potential synergies have not been quantified for the purposes of reporting under the Takeover Code.

The integration of the businesses will require combining the Virgin Money businesses and group functions with CYBG's business and group functions. It is anticipated that the customer facing brand for the Combined Group will transition to Virgin Money over time.

The CYBG Directors have, in addition, made the following assumptions, all of which are outside their influence:

(A) There will be no material impact on the underlying operations of either CYBG or Virgin Money or their ability to continue to conduct their businesses.

(B) There will be no material change to macroeconomic, political, regulatory or legal conditions in the markets or regions in which CYBG and Virgin Money operate that will materially impact on the implementation or costs to achieve the proposed cost savings.

(C) There will be no change in tax legislation or tax rates or other legislation in the UK that could materially impact the ability to achieve any benefits.

In addition, the CYBG Directors have assumed that the cost synergies are substantively within their control, albeit that certain elements are dependent in part on negotiations with third parties.

## **Reports**

As required by Rule 28.1(a) of the Takeover Code, Deloitte, as reporting accountants to CYBG, and Morgan Stanley and Deutsche Bank, as financial advisers to CYBG, have provided the opinions required under that Rule. Copies of these reports are included at Parts B and C of this Appendix 4. Each of Deloitte, Morgan Stanley and Deutsche Bank has given and not withdrawn its consent to the publication of its report in this Announcement in the form and context in which it is included.

## **Notes**

These statements are not intended as a profit forecast and should not be interpreted as such. These statements of estimated synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the estimated synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither the Quantified Financial Benefits Statement nor any other statement in this Announcement should be construed as a profit forecast or interpreted to mean that CYBG's earnings in the first full year following the Effective Date, or in any subsequent period, will necessarily match or be greater than or be less than those of CYBG or Virgin Money for the relevant preceding financial period or any other period.

Due to the scale of the Combined Group, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.

## PART B - REPORT FROM DELOITTE



Deloitte LLP  
Athene Place  
66 Shoe Lane  
London  
EC4A 3BQ

The Board of Directors  
on behalf of CYBG PLC  
40 St Vincent Place  
Glasgow  
G1 2HL

Morgan Stanley & Co. International plc  
25 Cabot Square  
Canary Wharf  
London E14 4QA

Deutsche Bank AG, London Branch  
Winchester House  
Great Winchester Street  
London  
EC2N 2DB

18 June 2018

Dear Sirs

### **OFFER FOR VIRGIN MONEY HOLDINGS (UK) PLC (the "Target") BY CYBG PLC (the "Offeror")**

We report on the statement made by the directors of CYBG PLC (the "Directors") of synergy benefits set out in Part A of Appendix 4 to the Rule 2.7 Announcement (the "Announcement") issued by the Offeror (the "Quantified Financial Benefits Statement" or the "Statement"). The Statement has been made in the context of the disclosures within Part A of Appendix 4 setting out, inter alia, the basis of the Directors' belief (identifying the principal assumptions and sources of information) supporting the Statement and their analysis, explanation and quantification of the constituent elements.

### **Responsibilities**

It is the responsibility of the Directors to prepare the Statement in accordance with Rule 28 of the City Code on Takeovers and Mergers (the "Takeover Code").

It is our responsibility to form our opinion, as required by Rule 28.1(a) of the Takeover Code, as to whether the Statement has been properly compiled on the basis stated and to report that opinion to you.

This report is given solely for the purposes of complying with Rule 28.1(a)(i) of the Takeover Code and for no other purpose. Therefore, to the fullest extent permitted by law we do not assume any other responsibility to any person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 23.2 of the Takeover Code, consenting to its inclusion in the Announcement.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

Our work included considering whether the Statement has been accurately computed based upon the disclosed bases of belief (including the principal assumptions). Whilst the bases of belief (and the principal assumptions) upon which the Statement is based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the bases of belief (or principal assumptions) adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Statement have not been disclosed or if any basis of belief (or principal assumption) made by the Directors appears to us to be unrealistic. Our work did not involve any independent examination of any of the financial or other information underlying the Statement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Quantified Financial Benefits Statement has been properly compiled on the basis stated.

Since the Statement (and the principal assumptions on which it is based) relates to the future, the actual synergy benefits achieved are likely to be different from those anticipated in the Statement and the differences may be material. Accordingly, we can express no opinion as to the achievability of the synergy benefits identified by the Directors in the Statement.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We have not consented to the inclusion of this report and our opinion in any registration statement filed with the SEC under the US Securities Act of 1933 (either directly or by incorporation by reference) or in any offering document enabling an offering of securities in the United States (whether under Rule 144A or otherwise). We therefore accept no responsibility to, and deny any liability to, any person using this report and opinion in connection with any offering of securities inside the United States of America or who makes a claim on the basis they had acted in reliance on the protections afforded by United States of America law and regulation.

### **Opinion**

In our opinion, based on the foregoing, the Quantified Financial Benefits Statement has been properly compiled on the basis stated.

Yours faithfully

Deloitte LLP

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.*

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## **PART C - REPORTS FROM MORGAN STANLEY AND DEUTSCHE BANK**

The Directors,  
CYBG PLC,  
40 St Vincent Place,  
Glasgow,  
G1 2HL

18 June 2018

Dear Ladies and Gentlemen,

### **Quantified Financial Benefits Statement of CYBG PLC ("CYBG")**

We refer to the Quantified Financial Benefits Statement, the bases of belief thereof and the notes thereto (together, the "**Statement**") as set out in Part A of Appendix 4 of the Rule 2.7 announcement dated 18 June 2018 (the "**Announcement**"), for which the board of directors of CYBG (the "**Directors**") are solely responsible under Rule 28.3 of the UK City Code on Takeovers and Mergers (the "**Code**").

We have discussed the Statement (including the assumptions, bases of calculation and sources of information referred to therein) with the Directors and those officers and employees of CYBG who developed the underlying plans as well as with Deloitte LLP ("**Deloitte**"). The Statement is subject to uncertainty as described in the Announcement and our work did not involve an independent examination of any of the financial or other information underlying the Statement.

We have relied upon the accuracy and completeness of all the financial and other information provided to us by or on behalf of CYBG, or otherwise discussed with or reviewed by us, and we have assumed such accuracy and completeness for the purposes of providing this letter.

We do not express any view as to the achievability of the quantified financial benefits identified by the Directors.

We have also reviewed the work carried out by Deloitte and have discussed with them the opinion set out in Part B of Appendix 4 of the Announcement addressed to yourselves and ourselves on this matter, and the bases of calculation for the Statement.

This letter is provided to you solely in connection with Rule 28.1(a)(ii) of the Code and for no other purpose. We accept no responsibility to CYBG or its shareholders or any person other than the Directors in respect of the contents of this letter. We are acting exclusively as financial advisers to CYBG and no one else in connection with the offer by CYBG for Virgin Money and it was for the purpose of complying with Rule 28.1(a)(ii) of the Code that CYBG requested Morgan Stanley & Co. International plc and Deutsche Bank AG, London Branch to prepare this report on the Statement. No person other than the Directors can rely on the contents of this letter, and to the fullest extent permitted by law, we exclude all liability (whether in contract, tort or otherwise) to any other person, in respect of this letter, its contents or the work undertaken in connection with this letter or any of the results that can be derived from this letter or any written or oral information provided in connection with this

letter, and any such liability is expressly disclaimed except to the extent that such liability cannot be excluded by law.

On the basis of the foregoing, we consider that the Statement, for which you as the Directors are solely responsible for purposes of Rule 28 of the Code, has been prepared with due care and consideration.

Yours faithfully,

Morgan Stanley & Co. International plc

Deutsche Bank AG, London Branch

## **APPENDIX 5 DEFINITIONS**

**The following definitions apply throughout this Announcement unless the context otherwise requires:**

|   |  |
|---|--|
| <b>"2006 Act"</b>                                   | the Companies Act 2006, as amended from time to time   |
| <b>"Admission"</b>                                  | the admission of the New CYBG Shares by the FCA to the Official List and to trading on the London Stock Exchange's main market for listed securities   |
| <b>"Announcement"</b>                               | this announcement  |
| <b>"Annual Report and Accounts of CYBG"</b>         | the annual report and audited accounts of CYBG for the year ended 30 September 2017  |
| <b>"Annual Report and Accounts of Virgin Money"</b> | the annual report and audited accounts of Virgin Money for the year ended 31 December 2017   |
| <b>"API"</b>  | application programming interface  |
| <b>"associated undertaking"</b>                     | shall be construed in accordance with paragraph 19 of Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) but for this purpose ignoring paragraph 19(1)(b) of Schedule 6 to those regulations) |
| <b>"ASX"</b>  | the Australian Securities Exchange   |
| <b>"Authorisations"</b>                             | authorisations, orders, grants, recognitions, confirmations, consents, licences, clearances, certificates, permissions or approvals  |
| <b>"BCA"</b>  | business current accounts  |
| <b>"Brand Licence Agreement"</b>                    | the Existing Brand Licence Agreement as novated from Virgin Money to CYBG, and as amended and restated, in each case by a deed of novation between Virgin Enterprises, Virgin Money and CYBG, effective from completion of the Offer                           |
| <b>"Brand Licence Resolution"</b>                   | approval of the Brand Licence Agreement for the purposes of Rule 16 of the Takeover Code and Chapter 11 of the Listing Rules   |

|   |  |
|---|--|
| <b>"Business Day"</b>                   | a day, not being a public holiday, Saturday or Sunday, on which banks in London and Edinburgh are open for normal business   |
| <b>"Capability and Innovation Fund"</b> | the fund established by Banking Competition Remedies Limited to provide funding to eligible businesses to: (i) develop the capability to compete with The Royal Bank of Scotland (and any relevant subsidiaries of The Royal Bank of Scotland) in the provision of banking services to SMEs; and/or (ii) develop and improve the financial products and services which are available to SMEs |
| <b>"Circular"</b>                       | the circular to be sent by CYBG to the CYBG Shareholders summarising the background to and reasons for the Offer which include a notice convening the CYBG General Meeting   |
| <b>"Citi "</b>                          | Citigroup Global Markets Limited   |
| <b>"Closing Price(s)"</b>               | the closing middle market price of a Virgin Money Share or CYBG Share (as applicable) as derived from the Daily Official List on any particular date   |
| <b>"CMA"</b>                            | the Competition and Markets Authority of the UK  |
| <b>"Combined Group"</b>                 | the enlarged group following the Offer comprising the CYBG Group and the Virgin Money Group  |
| <b>"Condition(s)"</b>                   | the conditions of the Offer, as set out in Appendix 1 to this Announcement and to be set out in the Scheme Document  |
| <b>"Co-operation Agreement"</b>         | the co-operation agreement dated 18 June 2018 between CYBG and Virgin Money, as described in paragraph 14 of this Announcement   |
| <b>"Court"</b>                          | the High Court of Justice of England and Wales   |
| <b>"Court Hearing"</b>                  | the Court hearing at which Virgin Money will seek an order sanctioning the Scheme pursuant to Part 26 of the Companies Act   |
| <b>"Court Meeting"</b>                  | the meeting or meetings of Virgin Money Shareholders to be convened at the direction of the Court pursuant to Part 26 of the 2006 Act at which a resolution will be proposed to approve the Scheme, including any adjournment,   |

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|   | postponement or reconvention thereof  |
| <b>"Court Order"</b>                    | the order of the Court sanctioning the Scheme under Part 26 of the 2006 Act   |
| <b>"CREST"</b>                          | the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) in respect of which Euroclear UK & Ireland Ltd is the operator  |
| <b>"CYBG"</b>                           | CYBG PLC  |
| <b>"CYBG Directors" or "CYBG Board"</b> | the directors of CYBG as at the date of this Announcement or, where the context so requires, the directors of CYBG from time to time  |
| <b>"CYBG General Meeting"</b>           | the general meeting of CYBG Shareholders including any adjournments thereof to be convened to consider and if thought fit pass, inter alia the resolutions to approve the Offer and authorise the creation and allotment of the New CYBG Shares |
| <b>"CYBG Group"</b>                     | CYBG and its subsidiary undertakings from time to time and where the context permits, each of them  |
| <b>"CYBG Shareholders"</b>              | holders of CYBG Shares  |
| <b>"CYBG Shares(s)"</b>                 | the existing CYBG ordinary shares of 0.1 pence each in the capital of CYBG  |
| <b>"Daily Official List"</b>            | means the daily official list of the London Stock Exchange  |
| <b>"DC Option"</b>                      | the option over Virgin Money Shares granted to Sir David Clementi by Virgin Money on 7 October 2011   |
| <b>"Dealing Disclosure"</b>             | an announcement pursuant to Rule 8 of the Takeover Code containing details of dealings in relevant securities of a party to an Offer  |
| <b>"Deloitte"</b>                       | Deloitte LLP  |
| <b>"Deutsche Bank"</b>                  | Deutsche Bank AG, acting through its London Branch  |
| <b>"Disclosed"</b>                      | the information which has been fairly disclosed by or on behalf of Virgin Money: (i) prior to the date of this Announcement to CYBG or CYBG's   |

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|   | professional advisers (in their capacity as such in relation to the Offer); (ii) in the Annual Report and Accounts of Virgin Money; (iii) in this Announcement; or (iv) in any other public announcement made by Virgin Money prior to the date of this Announcement in accordance with the Market Abuse Regulation, Listing Guidance and Disclosure Guidance and Transparency Rules after 31 December 2017 and prior to the date of this announcement in accordance with the Market Abuse Regulation, Listing Rules, Disclosure Guidance and Transparency Rules |
| <b>"Disclosure Guidance and Transparency Rules"</b> | the Disclosure Guidance and Transparency Rules of the FCA in its capacity as the UK Listing Authority under FSMA and contained in the UK Listing Authority's publication of the same name  |
| <b>"EC"</b>   | the European Commission of the European Union  |
| <b>"Effective"</b>                                  | in the context of the Offer: (i) if the Offer is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Offer is implemented by way of the Takeover Offer, the Takeover Offer having been declared or having become unconditional in all respects in accordance with the requirements of the Takeover Code   |
| <b>"Effective Date"</b>                             | the date on which the Offer becomes Effective  |
| <b>"EIR"</b>  | Effective Interest Rate  |
| <b>"Eurozone"</b>                                   | the Member States of the European Union that have adopted the euro as their common currency and sole legal tender  |
| <b>"Excluded Shares"</b>                            | any Virgin Money Shares beneficially owned by CYBG or any other member of the CYBG Group   |
| <b>"Existing Brand Licence Agreement"</b>           | the trade mark licence deed between Virgin Enterprises and Virgin Money dated 1 October 2014, as amended and restated on 25 July 2016  |
| <b>"Existing CYBG Shares"</b>                       | the CYBG Shares in issue as at the date of this Announcement   |

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| <b>"FCA"</b>                                   | Financial Conduct Authority or its successor from time to time   |
| <b>"FCA Handbook"</b>                          | the FCA's Handbook of rules and guidance as amended from time to time  |
| <b>"First Quarter Date"</b>                    | whichever of 1 January, 1 April, 1 July and 1 October is the first date to occur following completion of the Offer   |
| <b>"FSMA"</b>                                  | the Financial Services and Markets Act 2000 (as amended from time to time)   |
| <b>"FTEs"</b>                                  | full time equivalent employees   |
| <b>"Goldman Sachs"</b>                         | Goldman Sachs International  |
| <b>"IFRS"</b>                                  | international accounting standards and international financial reporting standards and interpretations thereof, approved or published by the International Accounting Standards Board and adopted by the European Union  |
| <b>"Independent Virgin Money Directors"</b>    | the Virgin Money Directors who are independent of the Virgin Group in respect of the Offer, being any Virgin Money Director other than Patrick McCall and Amy Stirling and any other person from time to time appointed to the Virgin Money Board as a representative of or connected with Virgin Group or any member of its group |
| <b>"Independent Virgin Money Shareholders"</b> | the Virgin Money Shareholders excluding Virgin Holdings  |
| <b>"Initial Period"</b>                        | the statutory review period in which the CMA has to decide whether to make a Phase 2 CMA Reference under section 34ZA Enterprise Act 2002  |
| <b>"Intra-Virgin Money Group Transactions"</b> | transactions between Virgin Money and its wholly owned subsidiaries or between such wholly owned subsidiaries within the Virgin Money Group  |
| <b>"IRB"</b>                                   | Internal Ratings Based   |
| <b>"Listing Rules"</b>                         | the listing rules, made by the FCA under Part 6 FSMA, as amended from time to time   |
| <b>"Long Stop Date"</b>                        | 31 January 2019  |

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| <b>"London Stock Exchange"</b>       | the London Stock Exchange plc or its successor  |
| <b>"LSE Admission Standards"</b>     | the rules issued by the London Stock Exchange in relation to the admission to trading of, and continuing requirements for, securities admitted to trading on the London Stock Exchange's market for listed securities |
| <b>"Macquarie"</b>                   | Macquarie Capital (Europe) Limited  |
| <b>"Main Market"</b>                 | the Main Market of the London Stock Exchange  |
| <b>"Market Abuse Regulation"</b>     | Regulation (EU) No. 597/2014 of the European Parliament and the Council of 16 April 2014 on market abuse  |
| <b>"Merger Notice"</b>               | a notice to the CMA in the prescribed form as contemplated by section 96 Enterprise Act 2002  |
| <b>"Morgan Stanley"</b>              | Morgan Stanley & Co. International plc  |
| <b>"New CYBG Shares"</b>             | the CYBG Shares proposed to be issued credited as fully paid pursuant to the Offer  |
| <b>"Offer" or "Combination"</b>      | the proposed acquisition by CYBG of the entire issued and to be issued share capital of Virgin Money by means of the Scheme, or should CYBG so elect, by means of a Takeover Offer                                    |
| <b>"Offer Period"</b>                | the period which commenced on 7 May 2018 with the announcement by Virgin Money that it has received a preliminary and conditional proposal from CYBG  |
| <b>"Official List"</b>               | the Official List maintained by the FCA pursuant to Part 6 of FSMA  |
| <b>"Open Banking"</b>                | the use of open application programming interfaces (commonly known as APIs) that enable the secure sharing of user and financial services information with other financial services and third parties                 |
| <b>"Opening Position Disclosure"</b> | an announcement pursuant to Rule 8 of the Takeover Code containing details on interests or short positions in, or rights to subscribe for, any relevant securities of a party to an Offer                             |
| <b>"Overseas Shareholders"</b>       | shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom  |

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| <b>"Panel"</b>                                   | the Panel on Takeovers and Mergers  |
| <b>"Payment Services Directive 2"</b>            | the second Payment Services Directive ((EU) 2015/2366), as amended from time to time, which replaced the original Payment Services Directive (2007/64/EC)   |
| <b>"PCA"</b>                                     | personal current accounts   |
| <b>"Phase 2 CMA Reference"</b>                   | a reference of the Offer to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013  |
| <b>"Post Office"</b>                             | Post Office Ltd   |
| <b>"PRA"</b>                                     | the Prudential Regulation Authority or its successor from time to time  |
| <b>"Prospectus"</b>                              | the prospectus relating to CYBG to be published in respect of the New CYBG Shares to be issued in connection with the Offer   |
| <b>"Quantified Financial Benefits Statement"</b> | the statement described as such and set out in Appendix 4   |
| <b>"Registrar of Companies"</b>                  | the Registrar of Companies in England and Wales   |
| <b>"Regulatory Information Service"</b>          | a regulatory information service as defined in the FCA Handbook   |
| <b>"relevant securities"</b>                     | shall be construed in accordance with the Takeover Code   |
| <b>"Resolutions"</b>                             | the resolutions proposed to be passed at the Virgin Money General Meeting in connection with, inter alia, implementation of the Scheme and such other matters as may be necessary to implement the Scheme and the delisting of the Virgin Money Shares (including the Brand Licence Resolution) |
| <b>"Restricted Jurisdiction(s)"</b>              | any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Offer is sent or made available to Virgin Money Shareholders in that jurisdiction   |
| <b>"RWA"</b>                                     | risk weighted assets  |

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| <b>"Scheme"</b>   | the proposed scheme of arrangement under Part 26 of the 2006 Act between Virgin Money and the holders of the Virgin Money Shares, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Virgin Money and CYBG   |
| <b>"Scheme Document"</b>  | the document to be sent to Virgin Money Shareholders and persons with information rights containing, amongst other things, the Scheme and notices of the Virgin Money Meetings and proxy forms in respect of the Virgin Money Meetings  |
| <b>"Scheme Record Time"</b>                                     | the time and date to be specified in the Scheme Document, expected to be 6.00 p.m. on the Business Day immediately prior to the date of the Court Hearing   |
| <b>"Scheme Voting Record Time"</b>                              | the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined   |
| <b>"SME"</b>  | micro, small and medium-sized enterprises   |
| <b>"subsidiary", "subsidiary undertaking" and "undertaking"</b> | shall be construed in accordance with the 2006 Act  |
| <b>"Takeover Code"</b>  | the Takeover Code issued by the Panel on Takeovers and Mergers, as amended from time to time  |
| <b>"Takeover Offer"</b>   | if, subject to the consent of the Panel, CYBG elects to effect the Offer by way of a takeover offer as defined in section 974 of the 2006 Act, the offer to be made by or on behalf of CYBG to acquire the entire issued and to be issued ordinary share capital of Virgin Money on the terms and subject to the conditions to be set out in the related offer document and, where the context admits, any subsequent revision, variation, extension or renewal of such offer |
| <b>"TSYS"</b>   | Total System Services, Inc.   |
| <b>"UK" or "United Kingdom"</b>                                 | United Kingdom of Great Britain and Northern Ireland  |
| <b>"UK Listing Authority"</b>                                   | the UK Listing Authority, being the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI   |

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|   | of FSMA  |
| <b>"US Exchange Act"</b>                                | the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;  |
| <b>"US Person"</b>                                      | a US person as defined in Regulation S under the US Securities Act   |
| <b>"US Securities Act"</b>                              | the US Securities Act of 1933, as amended and the rules and regulations promulgated thereunder   |
| <b>"Virgin Enterprises"</b>                             | Virgin Enterprises Limited   |
| <b>"Virgin Group"</b>                                   | Virgin Holdings and its subsidiary undertakings and holding companies from time to time, and each subsidiary from time to time of any such holding company, and where the context permits, each of them  |
| <b>"Virgin Holdings"</b>                                | Virgin Group Holdings Limited  |
| <b>"Virgin Holdings Confidentiality Agreement"</b>      | the confidentiality agreement dated 22 May 2018 between CYBG and Virgin Holdings, as described in paragraph 14 of this Announcement  |
| <b>"Virgin Money"</b>                                   | Virgin Money Holdings (UK) plc   |
| <b>"Virgin Money Confidentiality Agreement"</b>         | the confidentiality agreement dated 21 May 2018 between CYBG and Virgin Money, as described in paragraph 14 of this Announcement   |
| <b>"Virgin Money DBSP"</b>                              | the Virgin Money Deferred Bonus Share Plan   |
| <b>"Virgin Money Directors" or "Virgin Money Board"</b> | the directors of Virgin Money as at the date of this Announcement or, where the context so requires, the directors of Virgin Money from time to time   |
| <b>"Virgin Money Foundation"</b>                        | The Virgin Money Foundation  |
| <b>"Virgin Money General Meeting"</b>                   | the general meeting of Virgin Money Shareholders including any adjournments thereof to be convened to consider and, if thought fit pass, the Resolutions in relation to the Offer (including the Brand Licence Resolution), including any adjournments thereof |

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| <b>"Virgin Money Group"</b>               | Virgin Money and its subsidiary undertakings from time to time and where the context permits, each of them   |
| <b>"Virgin Money LTIP"</b>                | the Virgin Money 2015 Long Term Incentive Plan   |
| <b>"Virgin Money Meetings"</b>            | the Court Meeting and the Virgin Money General Meeting   |
| <b>"Virgin Money Scheme Shareholders"</b> | holders of Virgin Money Scheme Shares  |
| <b>"Virgin Money Scheme Shares"</b>       | Virgin Money Shares: <ul style="list-style-type: none"> <li>a) in issue as at the date of the Scheme Document;</li> <li>b) (if any) issued after the date of the Scheme Document and prior to the Scheme Voting Record Time; and</li> <li>c) (if any) issued on or after the Scheme Voting Record Time and before the Scheme Record Time, either on terms that the original or any subsequent holders thereof shall be bound by the Scheme or in respect of which the holders thereof shall have agreed in writing to be bound by the Scheme,</li> </ul> but in each case other than the Excluded Shares |
| <b>"Virgin Money Share(s)"</b>            | the ordinary shares of 0.01 pence each in the capital of Virgin Money  |
| <b>"Virgin Money Share Plans"</b>         | the Virgin Money LTIP, the Virgin Money DBSP and the DC Option   |
| <b>"Virgin Money Shareholder(s)"</b>      | holders of Virgin Money Shares   |
| <b>"Voting Record Time"</b>               | the time and date to be specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined  |

**"Wider CYBG Group"**

CYBG Group and associated undertakings and any other body corporate, partnership, joint venture or person in which CYBG and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent

**"Wider Virgin Money Group"**

Virgin Money and associated undertakings and any other body corporate, partnership, joint venture or person in which Virgin Money and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent (but excluding Virgin Holdings and associated undertakings of Virgin Holdings (other than the Virgin Money Group))

**"£" or "pence"**

the lawful currency of the United Kingdom

For the purposes of this Announcement, "subsidiary", "subsidiary undertaking", "undertaking" and "associated undertaking" have the meanings given by the 2006 Act.

References to an enactment include references to that enactment as amended, replaced, consolidated or re-enacted by our under any other enactment before or after the date of this Announcement.

All times referred to are London time unless otherwise stated.