



Revised proposal and extension of PUSU deadline

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Virgin Money Holdings (UK) PLC
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FOR IMMEDIATE RELEASE

3 June 2018

Revised Proposal from CYBG PLC ("CYBG") for Virgin Money Holdings (UK) plc ("Virgin Money") and extension of PUSU deadline to 18 June 2018

The Boards of Virgin Money and CYBG confirm that CYBG has made a revised proposal to Virgin Money (the "Revised Proposal") and the two companies are in discussions regarding an all-share combination (the "Proposed Combination") to create a new national competitor in UK banking.

Under the terms of the Revised Proposal, CYBG would 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 would own approximately 38%¹ of the combined group. Virgin Money shareholders would also be entitled to retain any dividend declared and paid in respect of the interim period ending 30 June 2018, subject to the reservations set out below in this announcement.

In determining that it would enter into discussions with CYBG, the Board of Virgin Money noted the improvement in the terms of the proposal (a seven per cent. increase in the exchange ratio as compared to the announcement on 7 May 2018), and, in particular, the potential for accelerated value creation through an upfront premium, coupled with the opportunity to participate in the continuing progress of the combined group, including sharing the substantial synergy potential resulting from the Proposed Combination, and benefitting from growth opportunities available to a national full-service competitor in the UK banking market.

Discussions are ongoing regarding other terms and conditions of the Proposed Combination and reciprocal due diligence is being conducted. Separate discussions and due diligence are also ongoing between CYBG and Virgin Enterprises Limited in respect of the license of the Virgin Money Brand to the combined group, which is a pre-condition to the Proposed Combination as set out below in this announcement.

Compelling Strategic Rationale

The Boards of CYBG and Virgin Money believe that the Proposed Combination would create the UK's first true national banking competitor, offering both personal and SME customers an enhanced alternative to the large incumbent banks. The Proposed Combination would provide a powerful full-service banking offer for around six million personal and business customers, bringing together the complementary strengths of CYBG and Virgin Money.

With this further strengthened customer franchise and national reach, the Boards of CYBG and Virgin Money believe the Proposed Combination would deliver increased value for shareholders and wider benefits to other stakeholders.

The Boards of CYBG and Virgin Money recognise that the Proposed Combination would offer the potential for significant synergies.

It is expected that cost synergies would principally arise from:

- Removing duplication across the combined group;
- Optimising IT spend and removing duplication of investment spend;
- Rationalising CYBG's and Virgin Money's operations; and
- Increasing efficiencies in central procurement and third party outsourcing costs.

In addition to these potential efficiency benefits, there is potential for further value to be created through the realisation of revenue synergies arising across an enhanced customer base and product range, as well as funding synergies that are expected to be available to the combined group in the future.

This announcement does not amount to a firm intention to make an offer under Rule 2.7 of the Code. The full terms and conditions of any offer, if made, and a quantification of the potential efficiency benefits will be set out in any announcement of a firm intention to make an offer. There can be no certainty that any transaction will occur, even if the pre-conditions referred to below are satisfied or waived.

PUSU Extension

CYBG's announcement of 7 May 2018 stated that, in accordance with Rule 2.6(a) of the Code, by no later than 5.00 p.m. on 4 June 2018, it was required either to announce a firm intention to make an offer for Virgin Money or to announce that it does not intend to make an offer.

With the consent of the Panel on Takeovers and Mergers (the "Takeover Panel"), the Board of Virgin Money has agreed to an extension of the relevant deadline under Rule 2.6(c) of the Code to enable the ongoing diligence and discussions to be concluded. Accordingly, by no later than 5.00 p.m. (London time) on 18 June 2018, CYBG will be required either to announce a firm intention to make an offer for Virgin Money in accordance with Rule 2.7 of the Code or to announce that it does not intend to make an offer, in which case such announcement will be treated as a statement to which Rule 2.8 of the Code applies. This deadline may be extended further with the consent of the Takeover Panel, at Virgin Money's request, in accordance with Rule 2.6(c) of the Code.

Reservations

The Revised Proposal does not impose any obligation on CYBG to make an offer, nor does it evidence a firm intention to make an offer within the meaning of the Code. CYBG does not, therefore, regard it as forming the basis for an announcement pursuant to Rule 2.2(a) of the Code.

CYBG also reserves the right:

- to make an offer at any time on reduced terms than 1.2125 new CYBG shares for each Virgin Money share:
 - with the agreement or recommendation of the Board of Virgin Money;
 - if a third party announces a firm intention to make an offer for Virgin Money pursuant to Rule 2.7 of the Code, which, at that date is valued at a lower price than the value of 1.2125 new CYBG shares for each Virgin Money share;
 - if Virgin Money announces, declares or pays any dividend or any other distribution to shareholders, in which case CYBG reserves the right to make an equivalent reduction in its offer terms. This 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 and paid in respect of the interim period ending 30 June 2018; or
 - following announcement by Virgin Money of a whitewash transaction pursuant to the Code; and
- to introduce other forms of consideration and/or vary the mix or composition of consideration of any offer.

Any firm offer in accordance with Rule 2.7 of the Code will be subject to, amongst other things, satisfactory completion of due diligence, the recommendation of Virgin Money's Board of Directors and reaching agreement with Virgin Enterprises Limited in relation to the Virgin Money brand in the context of the combined group. CYBG reserves the right to waive any or all of these pre-conditions in whole or in part.

Any firm offer would also be subject to customary terms and conditions for a transaction governed by the Code and the UK listing rules, including regulatory and CYBG shareholder approval.

Further announcements will be made in due course as appropriate.

In accordance with Rule 26.1 of the Code, a copy of this announcement will be available (subject to certain restrictions relating to persons resident in restricted jurisdictions) on CYBG's website at <https://www.cybg.com/cybg-update/> and on Virgin Money's website at www.virginmoney.com. The content of this website is not incorporated into, and does not form part of, this announcement.

1 Based on the issuance of 548,141,670 new CYBG shares for Virgin Money's 452,075,604 ordinary shares on a fully diluted basis (including 445,442,008 Virgin Money ordinary shares currently in issue (as at 1 June 2018) and a maximum of 6,633,596 Virgin Money ordinary shares which may be issued on or after the date of this announcement on the exercise of options or vesting of awards under Virgin Money's share schemes (based on outstanding options and awards as at 1 June 2018 less 1,950,734 shares held by Virgin Money's Employee Benefit Trust, Wealth Nominees Limited as at 17 May 2018)), giving a pro forma share count for the combined group of 1,433,332,646. The actual number of Virgin Money ordinary shares issued under Virgin Money's share schemes should the Proposed Combination proceed is expected to be lower once performance conditions and any time pro rating have been applied.

CYBG ENQUIRIES:

Investors and Analysts

Andrew Downey, Head of Investor Relations
Owen Price, Senior Manager Investor Relations

+44 7823 443150
+44 7484 908949

Media (UK)

Anthony Thompson, Head of Corporate Affairs
Press Office

+44 7484 046 241 / anthony.thompson@cybg.com
+44 800 066 5998 / press.office@cybg.com

Powerscourt

Victoria Palmer-Moore

+44 20 7250 1446 / +44 7725 565 545 / vpm@powerscourt-group.com

Justin Griffiths

+44 7899 967 719 / justin.griffiths@powerscourt-group.com

Citadel Magnus (Media Australia)

James Strong

+61 448 881 174 / jstrong@citadelmagnus.com

Morgan Stanley & Co. International plc

+44 20 7425 8000

William Chalmers

Shirav Patel

Deutsche Bank AG, London Branch

+44 20 7545 8000

Tadhg Flood

James Arculus

VIRGIN MONEY ENQUIRIES:

Investors and Analysts

Adam Key

+44 20 7111 1311 / adam.key@virginmoney.com

Virgin Money Press Office

+44 191 279 4676

Scott Mowbray / Simon Hall

Goldman Sachs International

+44 20 7774 1000

Anthony Gutman

John Brennan

Nimesh Khuroya

James A Kelly (Corporate Broking)

Citi (Corporate Broker)

+44 20 7986 4000

Robert Redshaw (Corporate Broking)

FTI Consulting

John Waples

+44 7717 814 520

Mitch Barltrop

+44 7807 296 032

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Merrion Way, Leeds, West Yorkshire LS2 8NZ.

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