VIRGIN MONEY UK

Our Readiness for Resolution

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1. DISCLAIMER

Important notice

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Our Resolution Preparation continues to evolve along with the Group’s business, market conditions, macroeconomic factors, and the rules, guidance, policies, practices and powers of the Bank of England (“BoE”), the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”), and therefore is subject to change. Our Resolution Preparation and the Information are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events, which are subject to risks, uncertainties and assumptions about the Group and its securities, investments, and the environment in which it operates, including, among other things, macroeconomic and/or geopolitical factors, changes to law and/or the policies, practices and powers of the BoE, the FCA, the PRA and/or other regulatory and governmental bodies, and changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group. Such events may not occur, which could have an adverse impact on our Resolution Preparation. The Group and their respective directors, officers, employees, agents, advisers and affiliates (each a “VMUK Party”) do not give any assurance as to the effectiveness of our Resolution Preparation, that our Resolution Preparation will not change, or that the projections, estimates, returns or results on which our Resolution Preparation and the Information is based will be realised and not materially lower than expected.

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2. EXECUTIVE SUMMARY

Virgin Money UK PLC ("VMUK" or the "Company") is the parent company of Clydesdale Bank PLC (the "Bank") and of the VMUK Group.

The Group is pleased to present this summary of how it has prepared for, and could support the BoE in, executing its resolution strategy if such a scenario were to arise. This report is published in compliance with the requirements of the PRA.[1]

The Group has undertaken a substantial programme of work with the aim of achieving the resolvability outcomes outlined by the BoE in its Statement of Policy on Approach to Assessing Resolvability[2] ("RAF SoP"), namely the Group assessed whether it:

1. has adequate financial resources in the context of resolution;

2. is able to continue to do business through resolution and restructuring; and

3. is able to co-ordinate and communicate effectively within the firm and with the authorities and markets so resolution and subsequent restructurings are orderly.

The Group believes that it is able to achieve the three resolvability outcomes listed above. The Group is confident, having taken a structured approach to designing capabilities to achieve the resolvability outcomes, that it has capabilities and arrangements in place to avoid substantive barriers to resolution and they have been built in a manner that is flexible and not specific to a particular scenario.

The Group has a simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank. Whilst the Group considers that it has taken robust steps to prepare for the unlikely event of resolution and has met the expectations of the BoE's resolvability assessments, the Group understands that the BoE has indicated that there are a number of areas in which it would wish to see further enhancement.

The BoE has published its assessment of the Group's resolvability, alongside that of other major UK firms and welcomes the Group's engagement with the BoE over the course of the RAF cycle. This assessment confirms that the BoE has not identified any shortcomings, deficiencies or substantive impediments with regard to the Group achieving the resolvability outcomes. The BoE has identified areas for further enhancement to achieve the resolvability outcomes described in the RAF SoP.

Areas for enhancement represent areas of continued work to further enhance and/or embed capabilities within the business in order to minimise execution risks associated with resolution. Details of the definitions used by the BoE in its assessment can be found in Section 11.

The Group is conducting further work to embed its resolvability capabilities and preparedness and remains committed to continue to work with the BoE in its efforts to further enhance the stability and soundness of the UK financial system.

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1 As set out in the PRA's Supervisory Statement SS4/19 "Resolution assessment and public disclosure by firms" (amended with effect from May 2021).

2 The Bank of England's Approach to Assessing Resolvability May 2021 available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/bank-of-englands-approach-to-assessing-resolvability-sop-may-2021

A programme of continuous improvement activities post 1 January 2022, leveraging existing investment projects as well as developing new activities, has been developed, and will be overseen by the Recovery and Resolution team within Treasury. The details of these enhancements can be found in Section 8 Future Enhancements.

3. INTRODUCTION

During the 2007-2009 Global Financial Crisis, the tools available to central banks and other authorities were not fit for purpose to address the failure of some of the world's largest financial institutions. The only solution to tackle banks that were considered 'too big to fail' was public bailouts by governments.

The BoE, as the UK's resolution authority, is responsible for taking action to manage the failure of certain financial institutions, including UK-headquartered banking groups and UK-incorporated banks and building societies, a process known as 'resolution'. Resolution allows the shareholders and some unsecured creditors of failed firms to be fully exposed to losses, while ensuring the critical functions of the firm can continue and helping to preserve financial stability. Resolution reduces risks to depositors, the financial system, and public funds that could arise due to the failure of a firm. By ensuring losses will fall on a failed firm's investors, rather than depositors or taxpayers, resolution can both reduce the risk of firm failures by supporting market discipline and limit the impact of failure when it does occur.

Over the last decade, the BoE, as the UK's resolution authority, has worked closely with the PRA, other authorities and banks to enhance preparedness and improve the resolvability of banks. A key development during the last decade has been the concept of 'bailing-in' shareholders and certain unsecured creditors in the failed bank, in contrast to taxpayer funded bail-outs.

As part of the commitment by the BoE to Parliament to protect financial stability and ensure that all banks are resolvable in the event they are likely to fail, the Group has been asked to publish a summary of its preparations for resolution. In Section 4, there is more information on the UK's resolution framework and the powers the BoE could use to resolve the Group. In Section 7, there is detail on some of the steps that the Group has taken in recent years to enhance its resolvability more generally.

Resolution forms part of a continuum that starts with the Group's annual planning cycle through to Recovery Planning and Resolution and has been considered holistically in the Group's Master Resolution Playbook ("MRP"). The MRP supports the Board with decision making across the resolution timeline, from contingency planning (which is expected to take place in parallel to recovery planning) to resolution and through restructuring. The Group's MRP provides an overview of:

1. the Group's preferred resolution strategy, as set by the BoE;
2. key Board decisions and actions;
3. documentation which the Board will receive to support decision making (e.g. Management Information); and
4. who is responsible for supporting the Board.

The preferred resolution strategy is a single-point-of-entry ("SPE") bail-in at VMUK led by the resolution authority, the BoE. Section 6 describes how this strategy could be used to resolve the Group in the unlikely event it becomes necessary to do so. While the identification of our resolution strategy and the execution of any resolution are at the discretion of the BoE, there is much that the Group can do and has done to enable an orderly resolution were the Group to become severely financially distressed.

The Group has been committed to ensuring that, in the unlikely event of a severe stress scenario, the Group could be resolved without recourse to taxpayer funding. Over the past three years, the Group has invested significant time and resources into ensuring that the Group's structure, internal and external funding, counterparty arrangements, and relationship with third-party vendors and service providers are robust and can facilitate a resolution should the need arise.

The Group has also invested in resolution planning capabilities, management information systems ("MIS") and related governance structures. The RAF is owned and approved by the VMUK Board, with the Group's Chief Financial Officer ("CFO") given specific responsibility for it through his role as the Group's Recovery and Resolution Officer. It has been subject to an internal governance process to ensure sufficient and appropriate stakeholder, Committee and Board engagement, challenge and review. In line with other firms, the Group has submitted a Self-Assessment Report to the BoE, which is an assessment of the capabilities in place to support resolvability and confirm compliance with the RAF.

4. ABOUT THE UK RESOLUTION FRAMEWORK AND THIS REPORT

4.1 The Purpose of Resolution

The 2008/9 financial crisis highlighted the importance of both firms and regulators being prepared to respond effectively to unforeseen severe stress events, and the disruptive and costly nature of disorderly bank failure. As part of the subsequent global regulatory reforms, regulators have called on large, systemically important financial institutions to improve their recovery plans for restoring their capital, liquidity and balance sheet positions during times of severe stress.

In addition, and in the event of the failure of recovery plans, regulators require such institutions to ensure they have capabilities to support their orderly resolution.

The BoE describes the purpose of resolution in the following way:

> *Resolution imposes losses on failed banks' shareholders and investors, not taxpayers. It ensures larger firms' services can continue to operate for a sufficient period, allowing authorities or new management to restructure them or wind them down. By ensuring losses will fall on a failed bank's investors, resolution can reduce the risk of bank failures by encouraging more responsible risk-taking. This can limit the impact of bank failures when they do occur, by placing the cost of failure on shareholders and investors, not public finances*.[3]

3 Bank of England (2018) 'Introduction to the Resolvability Assessment Framework', page 2 available at: https://www.bankofengland.co.uk/paper/2018/introduction-to-the-resolvability-assessment-framework

4.2 The UK Resolution Framework

The BoE, as the regulatory authority with responsibility for resolution of banking groups and building societies in the UK, has at its disposal several so-called ‘stabilisation options’ provided for under the Banking Act 2009. These include:

1. the bail-in of liabilities (including issued debt) in order to recapitalise the entity or the group;

2. a sale of the entity either to a private sector purchaser, most likely another banking group, or a publicly-owned ‘bridge company’;

3. a sale of some or all of the group’s business to another industry participant; and

4. as a last resort, temporary public ownership of the entity or the group.

These powers can be exercised individually or in combination, and with respect to operating companies in the UK, such as banks or investment firms, or with respect to their UK organised holding companies.

The BoE has published a range of materials which discuss the UK’s resolution framework and how the BoE might conduct a resolution.[4]

4.3 A Commitment to Resolvability

In April 2017, the BoE committed to UK parliament that the major UK banking groups will be resolvable by 2022. Since that time, the BoE has developed its views on what it means for a bank to be resolvable, identified a number of potential barriers to resolution of banking groups and has developed policy expectations aimed to ensure such barriers are removed, or substantially mitigated, ahead of 2022.

For a bank to be resolvable, in the view of the BoE, it must:

1. have adequate financial resources available to absorb losses and recapitalise the institution, without recourse to public funds, in a resolution context;

2. be able to continue to do business and serve its customers through resolution; and

3. be able to coordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

Together these are referred to in this document as the “Resolution Outcomes”

Historically, there have been a number of features of banking groups, or the regulatory environment in which they operate, which might, if not adequately addressed, act as potential barriers to these resolvability objectives. In particular, the BoE has identified the following key factors that should be considered as part of the resolution planning process (“barriers to resolution”):

1. adequacy of minimum requirements for eligible liabilities (“MREL”);

2. capability to conduct accurate and timely valuations of assets and liabilities in resolution;

3. access to funding in resolution;

4 Available at: https://www.bankofengland.co.uk/financial-stability/resolution.

4. the risk of early termination of financial contracts;

5. ensuring operational continuity in resolution;

6. ensuring continuity of access to financial market infrastructures;

7. identification, development and execution of post-stabilisation restructuring options; and

8. effectiveness and timeliness of management, governance and communications in resolution.

The Group has taken active steps to mitigate these identified barriers, particularly where such barriers might in practice constitute an impediment to a credible execution of its resolution strategy. Please see Section 7 for a description of the steps taken to date. The Group has not identified any other barriers to its resolution. Further, the Group considers that the capabilities it has developed are well adapted to meeting any emergent idiosyncratic issue which may pose a threat to the credible execution of VMUK's resolution strategy.

4.4 Resolution Planning and this Report

Resolution planning is the process of analysing information about a banking group, developing a resolution strategy and creating systems and structures in the banking group that support the resolution strategy. A resolution strategy identifies the stabilisation options and other resolution powers that are likely to be best suited to stabilise and restructure a particular bank were it to become severely financially distressed; planning to support that strategy involves identifying how the potential barriers identified above could be addressed. The strategy for a banking group is determined by the BoE based on reports and analysis provided by the banking group.

The BoE has developed the RAF to support this process. The RAF defines the information, banking groups need to provide to the BoE, so that the BoE can determine the extent to which the strategy for a particular group, and its preparations are adequate in case of a resolution. As part of this process, the Group is publishing this report to describe our capabilities in place to facilitate an orderly resolution should the need arise. As indicated in Section 2, the BoE will communicate publicly its assessment of our resolvability and the resolvability of other major UK firms. As the RAF is a new framework, it is expected that there will be further work for the industry to do to develop the outcome of the RAF in the coming years.

5. VMUK GROUP STRUCTURE

5.1 Overview of VMUK Group

Corporate Structure

VMUK is the parent company of the Bank and of the VMUK Group. The "Group" means the Company and each entity which is part of the VMUK prudential consolidation group. VMUK owns 100 per cent of the ordinary shares of the Bank, which is the main operating company in the Group. The Group's long-term corporate locations are centred around two key locations in Glasgow and Gosforth, which are supported by various regional locations. The average number of full-time employees employed by the Group in the financial year ended 30 September 2021 was 7,415. The Group has no material operations outside the UK. The Bank is authorised by the PRA and regulated by the FCA and the PRA, Financial Services Register No 121873.

The Group has a simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank.

As part of the resolution planning process described above in Section 5, only the Bank has been identified as 'material' for the purposes of assessing our resolvability/resolution entities. No other subsidiaries of the Group are considered material for resolution.

5.2 Impact of Ring-Fencing on the Group

Following the 2007-2008 Financial Crisis, UK legislation was passed to better protect customers and the day-to-day banking services they rely on. The legislation required each large UK bank to separate services such as current accounts, savings accounts, and payments from risks in other parts of the business, for example in investment banking.

This separation, called 'ring-fencing', came into force on 1 January 2019 for banks with greater than £25bn of 'core deposits' (such as the Group) and looked to separate core 'retail banking' services from 'investment and international' banking. Ring-fencing legislation (and regulatory rules) was introduced to protect core retail services; increase resilience and resolvability of ring-fenced bodies; and facilitate orderly resolution.

The Group is subject to ring-fencing legislation however there is very little impact arising from the Group's ring-fencing compliance activities.

The Group does not undertake activities such as investment banking, therefore the impact of ringfencing on the Group and its customers was limited compared to other larger UK banking groups. As measured by Risk Weighted Assets, at over 99 per cent., the majority of activities are conducted within the ring-fenced group. There was no material change to business operations or corporate structures and only a very small number of business customers saw changes to the products and services that the Bank was able to provide due to the manner in which the Group implemented ring-fencing.

Within the Group, the Bank is the only ring-fenced body with the ring-fence established around the Bank, its subsidiaries, and controlled entities (including Structured Funding special purpose entities). This "ring-fenced" sub-group includes all of the companies in the Group's corporate structure except for VMUK, Clydesdale Bank Investments Ltd, Northern Rock Limited, the Virgin Money Foundation and the Group's pension trustee companies.

5.3 Strategy of the Group

The Group launched its refreshed strategy at a Capital Markets Day on 19 June 2019. Since then, the environment has changed significantly. As a result of COVID-19, the pace of digital change has accelerated rapidly, which alongside increasingly intensified banking competition has resulted in customer and colleague expectations for digital experience rising rapidly.

After concluding a comprehensive review of the Group's strategy, considering the external environment and the requirements for sustainable competitive advantage, the Board of Directors decided to accelerate the next stage of the Group's Digital First strategy, building on the strong financial momentum built up during the financial year ended 30 September 2021. This accelerated digital strategy will support additional growth with innovative, digital propositions and deliver targeted efficiency improvements. This strategy aims to deliver best-in-class propositions and experiences for customers, an efficient and motivated workforce and an agile platform that supports additional productivity.

The four strategic priorities (listed below) continue to underpin the Group's ambition to disrupt the status quo. A continued focus by the Group on delivering its efficiency goals and building seamless digital capability to delight customers and colleagues remains core to the Group's ability to provide a compelling proposition that delivers pioneering growth in its target segments.

Underpinning the Group's strategic ambition to disrupt the status quo in UK banking are four strategic priorities:

1. **Pioneering growth** – The Group intends to reshape its balance sheet mix through a focus on growth in margin accretive assets and lower cost relationship deposits, supported by a differentiated customer proposition that leverages the "Virgin Money" brand, the Group's digital platform and a Group loyalty programme.

2. **Delighted customers and colleagues** – The Group intends to deliver market-leading experiences for customers and a motivating work environment for colleagues through the deployment of new propositions and its digital capabilities.

3. **Super straightforward efficiency** – The Group plans to realise significant cost savings as it completes the 'Digital First' transformation programme that will digitise and simplify the business and streamline its operating model**.**

4. **Discipline and sustainability** – The Group intends to maintain its disciplined approach to risk and the efficient use of capital to deliver sustainable shareholder returns.

6. THE BANK OF ENGLAND'S RESOLUTION STRATEGY FOR VMUK GROUP

6.1 Resolution Strategy

The preferred resolution strategy is a single point of entry ("SPE") bail-in at VMUK led by the resolution authority, the BoE. Under this strategy, equity and debt instruments would be bailed in thereby imposing losses on shareholders and other creditors in order of priority.

Bail-in means that the BoE can be more confident that banks will be able to keep critical services operating through resolution and restructuring while recapitalising the bank to a level that enables the bank to continue to comply with the conditions for regulatory authorisation and sustain market confidence. Costs are borne by the failed bank's owners and investors rather than depositors or taxpayers. Resolution is the framework put in place after the last financial crisis to ensure that, in the event of a crisis, banks and banking groups can be recapitalised and restructured in a way that provides for the continued operation of important banking services to protect financial stability but without exposing public funds to losses.

The Group has a simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank. VMUK is the only entity in the Group to issue shares and qualifying capital securities externally and does not undertake any operational activities.

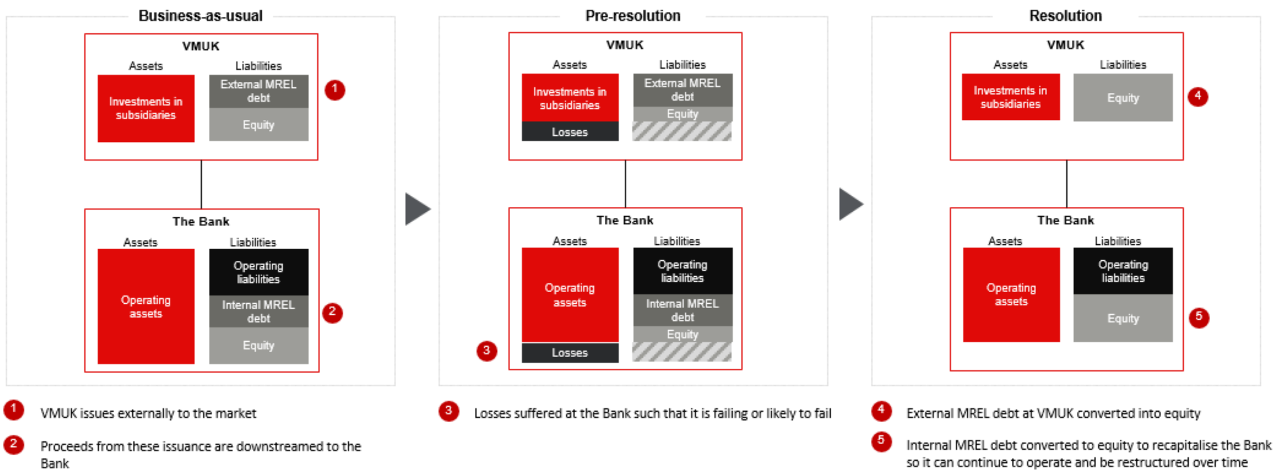
This means that the Group's principal operating subsidiary, the Bank, is expected to continue to operate as normal through a resolution of the Group, including both honouring all existing obligations and standing ready to engage in new transactions.

Therefore:

1. it is expected that in the event of a severe stress or potential failure in the Bank, the losses incurred by the Bank would be 'up-streamed' (that is written down or written off by the BoE), and borne by VMUK; and
2. if such losses were to exceed the ordinary ability of VMUK to provide support to and absorb the losses of its subsidiary and cause VMUK to be under severe stress or to potentially fail, the BoE (as the UK resolution authority) would 'bail-in' the equity and debt instruments issued by VMUK.

A bail-in imposes losses on the shareholders (including CDI holders) and certain creditors of VMUK according to the order of their priority. That means that losses would first be imposed on holders of ordinary shares, CDIs and other equity instruments. Any remaining losses would be imposed on creditors of VMUK in a process that would involve capital instruments and other qualifying capital securities issued by VMUK, being written down and cancelled. Creditors whose debt obligations were written down would receive ‘certificates of entitlement’ (“CE”). In general, certificates of entitlement represent the potential right of bailed-in creditors to equity shares. In the case of certificates of entitlement created in respect of other bailed-in liabilities which are not fully written down, they could also represent a potential right to existing or new securities of VMUK.[5]

Figure 1 VMUK Bail-in Mechanics



The bail-in process is described in the BoE’s ‘Operational Guide on Executing Bail-in’[6]. This operational guide provides practical information on the ways in which the BoE might execute a bail-in resolution, and in particular the operational processes and arrangements that may be involved.

Further, under this strategy, there is no expectation that any of the Group’s businesses, assets or its operating subsidiary will be sold or transferred as part of the bail-in process but this does not preclude any of this happening under any subsequent restructuring plan. The Bank expects to be in a position to negotiate with key suppliers, financial counterparties and other stakeholders to ensure continuity of services and business as is required. A Bail-in Administrator (“BiA”) may be appointed to be responsible for certain strategic decisions and to carry out certain senior roles within the Group during the bail-in period.

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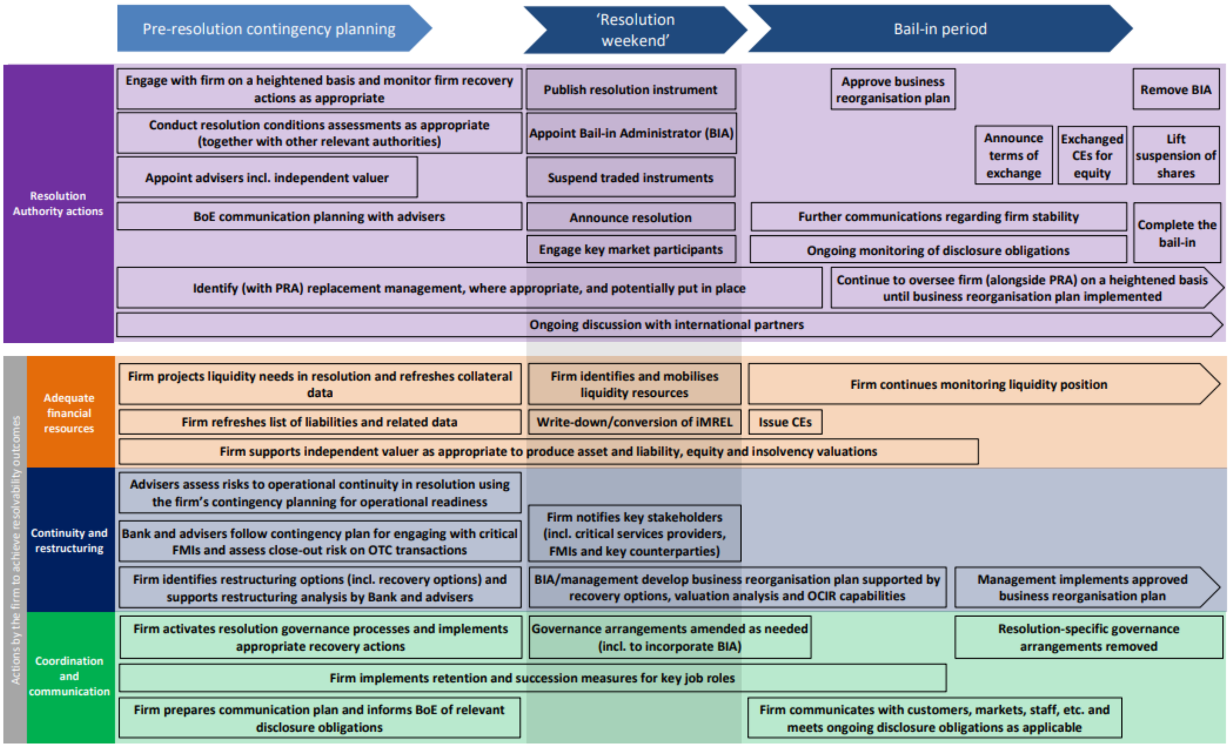
5 The precise value of ordinary shares to be allocated to MREL holders may not be known for some time after a firm is placed into resolution It is also recognised that some investors may be restricted from holding ordinary shares and may wish to trade out of the position before such shares are allocated. Accordingly, the BoE has developed an approach whereby so-called ‘certificates of entitlement’ might be issued in the first instance. This approach is further described in the BoE’s Operational Guide to Executing a Bail-in, available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/executing-bail-in-an-operational-guide-from-the-bank-of-england.pdf

6 Available at: https://www.bankofengland.co.uk/paper/2021/executing-bail-in-an-operational-guide-from-the-boe

Conduct of a Resolution

The BoE has explained how it might conduct a SPE resolution in its *Approach to Resolution* document.[7] The proposed resolution timeline is extracted below:

Figure 2 BoE's Approach to Resolution (from the BoE's RAF SoP)



The Group would support the practical implementation of SPE bail-in using documentation that has been prepared to identify and establish processes and procedures that the Group would be required to follow in the event of any signs of financial distress that could trigger resolution including the MRP (described in Section 5 above) which is a core tool for the implementation of the RAF. The MRP is supported by suite of barrier-level playbooks, which provide further detail on how decisions are expected to be actioned and how management information is expected to be collated and produced. The barrier-level playbooks detail working level actions necessary to produce management information and action Board/BoE decisions, including Governance steps and detail underlying capabilities.

6.2 Creditors

The SPE resolution strategy seeks to prevent any defaults by the Group's main operating subsidiary, the Bank, or impairment of liabilities to the Bank's creditors. Our strategy is designed to allow the Bank to meet its payment and performance obligations to its counterparties, vendors and other creditors. Likewise, such parties generally are prevented from terminating their agreements as a result of the resolution of the Group. This is described in Sections 7.2 (b) and 7.2 (c).

7 The Bank of England's approach to resolution, October 2017, available at: https://www.bankofengland.co.uk/-/media/boe/files/news/2017/october/the-bank-of-england-approach-to-resolution.

Notwithstanding this, it cannot be absolutely ruled out that a bail-in would also result in the write down or conversion of other, more senior-ranking liabilities of the Bank. In this unlikely circumstance, many creditors would be protected by the express exclusions from bail-in provided for under section 48B of the Banking Act 2009. In particular, holders of secured liabilities, depositors that are eligible for protection under the UK Financial Services Compensation Scheme ("FSCS"), employees in respect of fixed remuneration (and some variable remuneration) entitlements, pensions schemes and suppliers of non-financial goods and services that are critical to our daily operations are all expressly excluded from the potential scope of any bail-in.

6.3 Depositors

Under a SPE resolution strategy, it is intended that none of VMUK's subsidiaries, including the Bank, would enter resolution. Further, the strategy is aimed at ensuring that depositors continue to have uninterrupted access to their deposits and related banking services throughout the entire resolution process. Part of the resolution planning process involves assessing the likely sources and modelling the likely uses of liquidity in resolution, including that required to meet any withdrawals made by depositors in the unlikely event that they might arise. The Group has a variety of sources of liquidity available to it, including central bank facilities that may be made available by the BoE that rely on the Group providing sufficient qualifying collateral to support any drawings.

More details of the Group's liquidity exposures and the measurement and mitigation of liquidity risk and sources of funding can be found within the Risk Report in the VMUK Annual Report and Accounts 2021.

6.4 Vendors and Service Providers

The UK resolution framework recognises the critical importance of preserving relationships with key vendors and service providers. Liabilities to key vendors and service providers are excluded from the scope of liabilities that could be affected by a bail-in. These relationships are entered into by the Bank which is not expected to be placed into resolution proceedings and which will continue to operate on an ordinary basis.

7. ACHIEVING THE RESOLUTION OUTCOMES

This section describes what the Group has done to address the barriers to resolution and how this supports the delivery of the Resolution Outcomes as described in Section 4.3.

7.1 Outcome 1: Adequate Financial Resources

To be considered resolvable, the Group must ensure it has financial resources available to it to absorb losses and recapitalise it without exposing public funds to losses. This includes resources to meet the Group's financial obligations in resolution and ensure the Bank (and the other subsidiaries in the Group) continue to meet their obligations as they fall due. This means the Group must:

1. Meet the 'minimum requirements for eligible liabilities' (MREL) appropriately distributed across its business;

2. Be able to analyse and mobilise liquidity in resolution; and

3. Be able to support a timely assessment of its capital position and recapitalisation needs.

a) Summary of Capabilities

The Group has the following capabilities in place to help enable it to achieve the adequate financial resources resolvability outcome:

1. The Group has an MREL ratio in excess of end-state plus buffer requirements and therefore considers that it has sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise VMUK in a resolution scenario to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence.

2. The Group believes the strength and depth of the Group’s liquidity risk management capability, the adaptability of that capability to a resolution scenario and the detailed understanding of the implications of resolution on the Group’s funding and liquidity position support the RAF.

3. The Group believes it has capabilities in place to support an independent valuer in the delivery of timely and robust valuations and has documented the capabilities in extensive operational documentation, enabling a timely assessment of its capital position and recapitalisation needs to be established.

b) MREL

To ensure resolvability, the Group must meet the ‘minimum requirements for eligible liabilities’ (MREL) appropriately distributed across its business. Therefore, the Group must maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise it to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence.

In assessing whether a firm has met this objective, the BoE considers how firms have implemented the BoE and PRA’s policies relating to MREL (the BoE Statement of Policy on Approach to Setting a Minimum Requirement for Own Funds and Eligible Liabilities[8]) and how firms have met the following principles:

1. Principle 1: Loss-absorbing resources and monitoring;

2. Principle 2: Write-down and/or conversion of external and internal MREL instruments in resolution;

3. Principle 3: The role of internal MREL in supporting the preferred resolution strategy;

4. Principle 4: Clean holding company; and

5. Principle 5: Documentation and internal policies.

The BoE has confirmed that it expects the Group to meet an end-state MREL requirement (plus buffers) equivalent to 24.7 per cent. of Risk Weighted Assets (“RWAs”) in 2022 (based on December Pillar 2A Total Capital requirement of 3.1 per cent.). The Group’s IFRS 9 transitional MREL ratio of 32.2 per cent. as at 31 December 2021 (FY21: 31.9 per cent.) represents a prudent buffer of 7.5 per cent. or circa £1.8bn over this end state requirement. Further details of VMUK’s MREL resources can be found in the ‘Virgin Money UK PLC Pillar 3 Disclosures 2021’ at: https://www.virginmoneyukplc.com/downloads/pdf/vm-pillar-3-2021.pdf

8 The Bank of England’s approach to setting a minimum requirement for own funds and eligible liabilities (MREL) December 2021 available at: https://www.bankofengland.co.uk/paper/2021/the-boes-approach-to-setting-mrel-sop

Given VMUK's MREL ratio is in excess of end-state plus buffers requirement, the Group is of the view it has sufficient amount of MREL resources. Having also assessed its capabilities against the BoE and PRA's policies relating to MREL and five principles, as summarised above, the Group is also of the view that these resources can credibly and feasibly be used to absorb losses and recapitalise it to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence.

This is supported by the Group's simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank. All of the Group's external own funds and MREL instruments are issued by VMUK.

VMUK is registered in England and the Bank is registered in Scotland, meaning the Group does not need to consider whether its loss-absorbing instruments comply with the relevant requirements of any overseas based authorities.

For UK groups with a simple structure e.g. a single material subsidiary that sits below a UK resolution entity with few, if any, other subsidiaries, the BoE does not expect to adjust downwards the internal MREL for that UK material subsidiary. As such, the Group's internal MREL requirement has been set at 100 per cent. of its external MREL requirement. As required, all external own funds and MREL instruments are down streamed to the Bank on a back-to-back basis, meaning there is no surplus of external MREL resources over the sum of internal MREL resources held at the resolution entity level. As a result, internal MREL resources in an amount equal to external MREL resources are readily available to recapitalise the Bank and there are no differences in form between internal and external instruments which could impact resolvability, or the passing of losses and recapitalisation needs to VMUK.

The Group's 5-year projected Capital and Funding plans, which include planned maturities of all existing (internal and external) own funds and MREL instruments and planned new issuances, are approved by the Board. The Board approval delegates to each of any one Executive Director or the CFO the power to approve the amount, timing, currency and terms of any issuance and allows for additional issuance over plan volumes should the need arise, i.e. to maintain MREL compliance.

Tier 1 Risk Appetite Statement ("RAS") applies to both internal and external MREL, supported by internal risk management policies detailing the actions that would be taken in event of a breach of RAS settings relating to MREL. The Group's current (and projected) MREL position versus RAS is monitored through its Capital Plan and reported to the Asset and Liability Committee ("ALCO") on a monthly basis. The Capital Plan is produced on a Group-Consolidated, Solo-Consolidated and Ring-Fenced Bank Sub-Group basis.

The sum of VMUK's liabilities that do not qualify as MREL (excluding liabilities that previously met the MREL eligibility criteria but no longer meet the minimum maturity requirement that do not qualify as MREL) do not exceed 5 per cent. of its overall external MREL resources or 10 per cent, of its MREL resources in the same creditor class. This requirement is measured as part of the capital planning process and is reported to ALCO on a monthly basis.

Documentation that is relevant to the Group's MREL position is maintained in a way that can be made available to the BoE as required.

In summary, the Group has an MREL ratio in excess of end-state plus buffers requirement and therefore considers that it has sufficient amount of resources that can credibly and feasibly used to absorb losses and recapitalise the Group in a resolution scenario to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence.

As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the BoE and PRA's policies relating to MREL.

c) Funding in Resolution

The BoE expects that firms will be able to analyse and mobilise liquidity in resolution. This means the Group needs to be able to estimate, anticipate and monitor its potential liquidity resources and needs and mobilise liquidity resources, in the approach to and throughout resolution. The Group has developed liquidity analysis capabilities and corresponding governance arrangements in order to satisfy this objective. The capabilities the Group has designed meet the six principles within the BoE's Statement of Policy on Funding in Resolution.[9]

As detailed in Section 5, as the Group has a simple structure both in terms of business model and organisational design, the resolution process is more straightforward. The Group is a UK focused retail bank predominantly funded by personal and business customers. Customer funding is supported by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance, regulated covered bonds and unsecured medium-term notes. The Group also has access to and has drawn against the BoE Term Funding Scheme with additional incentives for small and medium-sized enterprises ("SMEs"), the scheme introduced to support the UK through periods of instability. The Group does not have a trading book and therefore does not have exposure to collateral positions resulting from trading. The Group has no reliance on wholesale market counterparties for short term wholesale funding making it less credit ratings sensitive.

The approach to addressing the funding in resolution barrier is to build on the Group's existing processes for liquidity management since these are designed to manage its responsibilities even in extreme stress scenarios.

In particular, the Group has the following capabilities, it:

1. can measure liquidity and funding risk on a timely basis;

2. has adequate resources today to manage material intra-day and short-term liquidity outflows at the onset of a stress;

3. has forecasting capabilities with the ability to adapt to changing circumstances under stress; and

4. has a clearly defined communication and escalation framework in place supporting timely decision making and BoE contact to support funding needs as required.

The Group has demonstrated capability through existing stress testing, relevant stress experience and detailed assessment of the Group's liquidity risk drivers in the context of resolution. The impact of the COVID-19 pandemic stress enabled the Group to test its liquidity reporting capabilities with daily balance sheet management information produced from Day 1 of the stress. The experience of COVID-19 across 2020 provided a real life example of the Group's ability to re-forecast and re-plan as a result of the impact on the balance sheet and operating environment.

The Group believes it has identified all liquidity requirements in resolution, what liquidity resources would be available in resolution and the implications for its existing wholesale funding programmes including continuation of market access. The Group has considered other sources of collateral that might be enabled to serve as collateral for central bank funding.

9 The Bank of England's Statement of Policy on Funding in Resolution available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf9

The Group is comfortable that it has the capability and flexibility in the day to day funding and liquidity capability to face-in to liquidity stress, from the initial emergence of the stress through into recovery then on to resolution and restructuring as required.

Additional cross-barrier fire drill testing and targeted simulation testing of key components of Funding in Resolution will further enhance the testing and assurance outcomes, validating the capabilities and identify learnings for further enhancement going forward.

The Group believes the strength and depth of the Group's liquidity risk management capability, the adaptability of that capability to a resolution scenario and the detailed understanding of the implications of resolution on our funding and liquidity position support a positive self-assessment outcome. As described in Section 8.2 (a), 'Outcome 1: Adequate Financial Resources', the Group is working on enhancements relating to the production of resolution specific liquidity analysis.

As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the BoE's Statement of Policy on Funding in Resolution.

d) Valuations

In the context of the Group's resolution strategy, the ability to carry out robust and timely valuations of assets and liabilities is critical to ensure that the losses imposed on the holders of VMUK's MREL are sufficient to recapitalise the Group, and that bailed-in creditors are allocated appropriate equity interests in the Group, following any necessary restructuring.

To enable resolvability, the Group must provide timely and robust information to an independent valuer as appointed by the BoE. The broad purpose of these valuations is to estimate the extent of resolution action necessary and to inform the choice and use of resolution tools. There are four valuation methodologies the Group must be capable of supporting:

a) Valuation 1 – Failing or likely to fail;

b) Valuation 2 - Asset and liability valuation;

c) Valuation 3 – Equity valuation; and

d) Valuation 4 – Estimated insolvency outcome.

Together, the "Valuations". The capabilities the Group has designed meet the seven principles within the BoE's Statement of Policy on Valuation Capabilities to Support Resolvability[10] and the outcome of the Group's testing and assurance approach demonstrates that the capabilities can produce the required Valuations.

The approach adopted for Valuations utilises, as far as possible, existing Group processes and documentation and tailored them to meet the requirements of the BoE's Statement of Policy on Valuation Capabilities to Support Resolvability. Accordingly, the processes, procedures and models are used regularly resulting in them being tested in business as usual ("BAU") on an on-going basis.

In meeting the expected objective for Valuations, the Group has developed valuation capabilities, principally through modelling capability, that produce timely and robust valuations that can support effective resolution.

10 The Bank of England's Statement of Policy on Valuation Capabilities to Support Resolvability available at: https://www.bankofengland.co.uk/paper/2018/the-boes-policy-on-valuation-capabilities-to-support-resolvability

All models have been built and operationalised to support the Independent Valuer ("IV") appointed by the BoE and BAU operations. These models, and the processes of Valuation 2, are utilised in BAU to produce the audited IFRS 7 disclosures within the Group's financial statements which are subject to Board approval. Valuation 1 is used for BAU reporting and the process for Valuation 3 is used within financial planning and analysis for reforecasting scenarios. All outputs, including those which are modelled, are supported by detailed data and information which will be made available to the IV via the Group's dedicated Virtual Data Room. This approach will allow an IV to access all relevant data sets, as well as the Group's models and therefore will provide them with flexibility in their approach to the valuation scenario. The Group has documented these capabilities in detailed operational documentation.

The Group has capabilities in place to support an IV in the delivery of timely and robust valuations. The Group has documented capabilities in extensive operational documentation. As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the BoE's Statement of Policy on Valuation Capabilities to Support Resolvability.

7.2 Outcome 2: Continuity and Restructuring

To be resolvable the Group should be able to continue to do business through resolution and restructuring ensuring activities can continue while the authorities take charge and begin to restructure the Group in such a way that the business can be reshaped, including any parts of it being sold or wound down. Ensuring continuity should result in the Group's financial and operational contracts not being materially disrupted or terminated and that direct or indirect access to services delivered by financial market intermediaries should be maintained. This is important to having a continuing business that can be returned to long-term viability through restructuring.

Continuity and restructuring has been considered in the following context:

1. preventing the early termination of financial contracts;

2. ensuring operational continuity arrangements for the continued provision of critical services and critical functions at the point of entry into resolution and through post-stabilisation restructuring;

3. ensuring continued access to clearing, payment, settlement and custody services; and

4. ability to plan and execute restructuring effectively and on a timely basis.

a) Summary of Capabilities

In order to enable it to achieve the continuity and restructuring outcome, the Group has capabilities in place:

1. to assess the risk of early termination of financial contracts and develop relevant reporting and communications;

2. to provide that in a resolution scenario, all critical functions can continue and has developed detailed mapping and documentation to understand potential areas of disruption;

3. to facilitate continued access to FMI services during resolution and restructuring; and

4. to plan and execute appropriate restructuring options.

b) Continuity of Financial Contracts

To be considered resolvable, the Group should suitably address the risk of early termination of its financial contracts upon entry into resolution to limit any impact on their stability and the wider financial system. Given the Group's structure, products on offer and customer base, the Group does not have a complex pool of financial contracts.

The Group has reviewed its financial contracts to satisfy itself that it is in compliance with PRA rules regarding contractual stays in financial contracts and has concluded that any contracts that are not governed by UK law include appropriate resolution language. In addition, the Group is able to identify its financial contracts and have information about these financial contracts readily available during a resolution scenario. The Group has also developed communications capabilities that can be used to engage with counterparties to financial contracts as required during resolution. Financial counterparties are identified and their details listed in a database which is maintained by the Group treasury management system and periodically reviewed.

As a result, the Group believes it has suitably addressed the risk of early termination of its financial contracts upon entry to resolution to limit any impact on the stability of the Group and the wider financial system (i.e. market contagion). It has also developed relevant reporting and communications capabilities for use in a resolution scenario.

As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the PRA rules on continuity of financial contracts.

c) Maintaining Operational Continuity in Resolution (OCIR)

To be considered resolvable the Group should ensure operational continuity of critical services at the point of entry into resolution and permit post-stabilisation restructuring, to ensure the continuity of banking services and critical functions. Critical services are activities, functions or services performed for one or more business units of the bank or for the bank and another member of its group, the failure of which would lead to the collapse of or present a serious impediment to the performance of the bank's critical functions or core business lines. The Group has identified its critical economic functions ("CEF") as:

1. Deposit Taking (Current Accounts and Savings Accounts for Retail and SME Customers);

2. Mortgage Servicing;

3. Credit Card Servicing;

4. Cash Services; and

5. Payment Services.

The Group's assessment of resolvability is based on being able to demonstrate it has the appropriate operational continuity arrangements in place, or planned for, to ensure the continuation of these critical functions during and after the resolution period. The Group maintains a comprehensive mapping of critical services, and associated operational assets, within the Group's ServiceNow application to understand potential areas of disruption. The application allows the mapping to be refreshed as needed to maintain a current understanding of the operational dependencies between critical functions and the critical services that support them.

In advance of the introduction of the PRA OCIR Policy[11] in 2019 an exercise was undertaken by the Group to include special resolution clauses in operational contracts for identified critical suppliers. Special resolution clauses are also included in the Group's standard contracts used in the procurement process. This helps the Group to mitigate the risks to successful resolution and restructuring from 3rd party providers seeking to terminate contracts as a result of the Group experiencing any rating downgrade triggered by resolution, change of control or technical insolvency.

To ensure timely payment of critical services during resolution the Bank, as the critical service provider, holds liquidity in reserve to cover six months' costs of running the critical functions. The Group maintains information to allow the creation of transitional service agreements (TSAs) if necessary and has the change capability necessary to support restructuring.

The Group complies with PRA OCIR Policy Supervisory Statement SS9/16 (Ensuring Operational Continuity in Resolution) relating to continuity of the critical services that support our CEFs (listed above) and as a result the continuation of CEFs throughout the recovery and resolution timeline.

The Group is confident that the capabilities in place described above mitigate the risks to an effective resolution and ensure operational continuity of critical functions and the associated critical services in the run up to and over any resolution period.

As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the PRA in relation to maintaining operational continuity in resolution.

d) Continuity of Access to Financial Market Infrastructures

The Group should take all reasonable steps available to facilitate continued access to clearing, payment, settlement and custody services in order to keep functioning at the point of entry into resolution and permit post-stabilisation restructuring, in accordance with the principles in the BoE's Statement of Policy on Continuity of Access to Financial Market Infrastructure[12] and therefore be considered resolvable. In a resolution situation, it is important the Bank continues to have access to Financial Market Infrastructures ("FMIs") so that the Bank is able to take appropriate steps to establish a post-stabilisation restructure, whilst maintaining payment services to customers and protecting any further contagion to the wider market.

In assessing whether a firm has met this objective, the BoE considers how firms have implemented the BoE and PRA's policies relating to continuity of access to financial market infrastructures and how firms have met the following principles:

Principle 1: Identifying FMI relationships;

Principle 2: Identifying FMIs that provide critical FMI services;

Principle 3: Mapping and Assessment of FMI relationships;

Principle 4: Usage of FMIs and FMI intermediaries; and

Principle 5: Contingency planning.

11 In the UK, OCIR policy is set out in the Operational Continuity Part of the PRA Rulebook, available at: https://www.prarulebook.co.uk/rulebook/Content/Part/320890/01-06-2022 and PRA Supervisory Statement 9/16 (collectively the "PRA OCIR Policy").

12 The Bank of England's Statement of Policy on Continuity of Access to Financial Market Infrastructure (FMIs) available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-continuity-of-access-to-fmis-sop.pdf

After analysing FMI Service Provider membership requirements to ascertain how these may change during financial stress or if the Group was to enter into resolution, the Group has concluded that membership requirements do not change in these scenarios and understands the existing requirements of each FMI Service Provider, which must be maintained. Through review of existing contracts the Group has established they facilitate continued access to those FMIs where the Group has direct membership access rather than access through an intermediary ("direct FMIs") through resolution, should the Bank continue to meet requirements and therefore deems it unlikely that the Bank's direct FMIs would suspend, limit or terminate service.

The Group has developed a contingency plan ("Payments Plan") to support the Group's pre resolution and resolution activities, ensuring the Bank can maintain continuity of access to FMI services. The plan details controls such as liquidity requirements, cap management, enhanced monitoring of FMI activity and the Bank's communication strategy. Quarterly maintenance of key data and annual governance is conducted. BAU FMI activity and annual testing of capabilities aims to ensure the Bank maintains compliance and confirm that the plan is fit for purpose.

The Group's Payments Plan supports effective communication between barriers and FMIs in a time of financial stress or resolution. Critical FMIs are identified and documented within the Payments Plan, detailing the service they provide. Through establishing their jurisdiction and governing law, the Group has determined that no special provisions need to be put in place.

Where the Group's FMI intermediaries (an institution/supplier the Group utilises to gain access to FMI services) have the right to terminate services, the Group has either an OCIR compliant agreement in place, or has the ability to port services to another intermediary in the event of termination. Centralised data on FMI's can be provided to the BoE or BiA upon request.

The Group has assessed the collateral or liquidity requirements FMI Service Providers may place on the Group. Working collaboratively with the Funding in Resolution workstream and supported by the Group's Individual Liquidity Adequacy Assessment Process ("ILAAP") and Overall Liquidity Adequacy Rule ("OLAR"), anticipated liquidity requirements have been documented including prefunding requirements within the Payments Plan.

The Group believes it has the capabilities in place to facilitate continued access to FMI services during resolution and restructuring. The Group has addressed each of the BoE's SoP principles as described above and whilst it believes it already meets the requirements and has removed this barrier to resolution, ongoing enhancements and testing will substantiate the Group's continued confidence in this assessment.

As a consequence, the Group believes it has the capabilities, resources and arrangements in place to meet the requirements of the BoE Statement of Policy on Continuity of Access to FMIs.

e) Restructuring Planning

To be considered resolvable firms should be able to plan and execute restructuring effectively and on a timely basis in the event of resolution, taking into account the objectives applicable to that firm's preferred resolution strategy. In assessing whether a firm has met this objective, the BoE considers how firms have implemented the BoE Statement of Policy on Restructuring Planning[13] and how firms have met the following principles:

1. Principle 1: Identification of restructuring options;

2. Principle 2: Evaluation of restructuring options;

3. Principle 3: Planning for execution of restructuring options; and

4. Principle 4: Documentation and assurance.

As detailed in Section 5, as the Group has a simple structure both in terms of business model and organisational design, the resolution process is more straightforward. The Group is a UK focused retail bank. The Group does not have a trading book and therefore does not have exposure to collateral positions resulting from trading. The Group has no reliance on wholesale market counterparties for short term wholesale funding making it less credit ratings sensitive.

Apart from some wholesale funding transactions and foreign exchange support to business bank customers, the Group is a GBP denominated business. This means that the complexities of intra-group flows between material subsidiaries, cross jurisdiction funding, currency requirements and solvent wind-down are not relevant for the Group. Any external wholesale funding including MREL that is issued in non-GBP currencies is fully hedged back into GBP to eliminate foreign exchange risk.

Restructuring options available to the Group are limited to retail and business portfolios. Restructuring options have been identified by categorising the Group balance sheet and identifying assets that the Group would look to ‘retain’ or ‘exit’. Scenario impacts have been assessed, considering connectivity to other RAF barriers and identifying Gap analysis to enhance future restructuring options. Options have been evaluated and given a Red, Amber or Green (“RAG”) status. Restructuring options have been evaluated and documented by the relevant business area, including the execution steps.

The trigger point for commencing the production of the Business Reorganisation Plan (“BRP”) in Resolution has been identified and incorporated into the Recovery Plan escalation framework. Roles and responsibilities along with contents and timelines for production of the BRP have been agreed with responsible teams to include a phased production and de-risk execution.

Having assessed its capabilities against the BoE’s Statement of Policy on Restructuring Planning and considering the four principles outlined in it, the Group believes that it meets the Restructuring Planning requirements and believes it has appropriate restructuring options that are expected to allow the Group to achieve the Restructuring outcome.

13 The Bank of England’s Statement of Policy on Restructuring Planning available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/bank-of-england-restructuring-planning-sop-may-2021.pdf

f) Virgin Money Brand Licence Agreement

In order to use the “Virgin” and the “Virgin Money” brands, which it does not own, the Group is required to comply with certain obligations under the Brand Licence Agreement (“BLA”) entered into between VMUK and Virgin Enterprises Limited (“VEL”). The Group has considered its licence arrangements with the Virgin Group under the BLA in the context of recovery and resolution. The BLA is governed by English law and has a perpetual term. However, VEL and VMUK each have the right to terminate the BLA in various circumstances, some of which may be relevant in a recovery and resolution context. In addition, in certain circumstances, the termination of the BLA by VEL or by VMUK, entitles VEL to receive a termination fee from VMUK. However, on termination of the BLA, the Group is afforded a two-year debranding period.

The Group has assessed the termination and other provisions of the BLA against the Resolution Outcomes and in the context of the powers of the BoE. It has also considered the rights of VMUK and VEL in a number of scenarios that may be applicable during any recovery, bail-in and resolution process and has conducted testing via fire-drills. Having assessed the BLA in this context, the Group considers that it meets the requirements for resolvability across a range of different scenarios that may be relevant depending on the circumstances and the relevant stage in the recovery and resolution process.

g) Bail-in

VMUK has a dual listing in the UK and Australia, with its ordinary shares listed on the London Stock Exchange and its CDIs (which represent rights in its ordinary shares) listed on the Australian Stock Exchange. It is expected that the BiA or the BoE, as appropriate, would exercise full control of the Group in resolution and therefore that all voting rights attached to the ordinary shares and CDIs would be exercisable during the bail-in period by the BiA or the BoE. It is expected that the instrument which the BoE would publish under the Banking Act to place the Group into resolution and provide for the actions to give effect to the bail-in (the Bail-in Resolution Instrument) would provide for title to all the ordinary shares to be transferred to a third party depositary bank appointed by VMUK or the BiA or BoE as appropriate, at nil consideration to the shareholders, and held on trust by the depositary bank on behalf of the CE holders. It is expected that the Bail-in Resolution Instrument would also provide for the CDIs to be transferred to the third party depositary bank and either held on trust by the depositary bank on behalf of the CE holders or delisted, bought-back and cancelled. The Group has satisfied itself that the procedures required to be undertaken during a bail-in regarding the ordinary shares and CDI’s will not be a barrier to a timely resolution.

7.3 Outcome 3: Co-ordination and Communication

In the event of resolution, the Group should be able to co-ordinate and communicate effectively to support orderly resolution. To achieve this, a firm’s capabilities should meet the following objectives for management, governance and communication during the execution of a resolution:

1. Management: the firm’s key job roles are suitably staffed and incentivised;

2. Governance: the firm’s governance arrangements provide effective oversight and timely decision making; and

3. Communication: the firm delivers timely and effective communication to staff, authorities and other external stakeholders.

To be considered resolvable the BoE considers how firms have implemented the BoE Statement of Policy on Management, Governance and Communication ("MGC SoP")[14] and how firms have met the following principles:

1. Principle 1: Management in Resolution;

2. Principle 2: Governance in Resolution; and

3. Principle 3: Communication in Resolution.

a) Summary of Capabilities

The Group has the following capabilities in place to help enable it to achieve the co-ordination and communication outcome:

1. a management framework to provide that key job roles would be suitably staffed and incentivised in resolution;

2. a resolution governance framework that is flexible and designed to provide effective oversight and timely decision making in the resolution scenario, incorporating the BiA and the Group as required; and

3. a communications strategy that will allow the Group to deliver effective and timely communications throughout the resolution period.

b) Management in Resolution

The overarching objective of Management in Resolution is to ensure that key job roles are suitably staffed and incentivised in resolution. The key risks identified that could impact this objective are:

1. the potential extent of colleague turnover in a resolution scenario;

2. the potential need to replace management deemed to be responsible for the failure of the Group; and

3. the need for colleagues to support both BAU activities and resolution-specific activities throughout the contingency planning period and through resolution.

The Group has identified the expected key jobs roles that would be required in resolution. A key job roles matrix has been created to capture the jobs that are likely to be key in resolution. A job role is defined as key if a vacancy in resolution is likely to present an obstacle to the effectiveness of resolution and any subsequent restructuring. In assessing this, the Group has considered the significance of the role and the substitutability of the role.

The Group understands that retaining key individuals during resolution will be important to a successful resolution. A Retention Framework, with key retention principles exists and is expected be updated during a resolution event to reflect the specific circumstances which trigger the resolution event and any impact on key roles. It is anticipated that financial incentives to retain key individuals would be used as an exception but can be implemented quickly if required using the Group's Retention Principles which aim to ensure that any financial retention is targeted, effective, compliant with regulation (particularly surrounding material risk takers (an employee whose professional activities have a material impact on the firm's risk profile)) and managed in a cost effective way.

14 The Bank of England's Statement of Policy on Management, Governance and Communication available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/bank-of-england-management-governance-and-communication-sop-may-2021.pdf

The Group understands appropriate succession planning should mitigate the risks arising from colleagues choosing to leave during the resolution period and also from any decisions the BoE makes regarding the replacement of management potentially deemed responsible for failure.

A centrally held Succession Planning framework is in place in BAU for individuals in the Leadership Team and their direct reports and represents a significant percentage of the key job roles in resolution.

The Group believes it has addressed the Management in Resolution principle and considers that it provides a management framework which aims to ensure key job roles would be suitably staffed and incentivised in resolution.

c) Governance in Resolution

The overarching objective of Governance in Resolution is to ensure there is effective oversight and timely decision making in the run up to and during the resolution event.

The key considerations identified, given the nature of the resolution activity, are:

1. the need for rapid decision-making throughout the resolution period in the context of uncertainty;

2. the need to potentially implement changes to the governance framework that may be needed to support the resolution event; and

3. the need for absolute clarity on the respective roles and responsibilities during the resolution period including in respect of the BiA, VMUK Board of Directors (and to the extent impacted, the subsidiary boards below VMUK), executive Leadership Team, holders of Senior Manager Function roles, Board and executive management committees and the regulators.

To ensure that effective decision-making and oversight arrangements will be in place throughout the resolution period, including expedited decision-making where necessary, the assumption is that the existing Board and executive management governance framework will be used with terms of reference, authorities and frequency of the meetings amended as necessary.

To be able to ensure governance arrangements provide effective oversight and timely decision making and are appropriately documented, the Group has created a resolution focused Governance in Resolution Checklist in addition to the existing governance frameworks, which details the processes and actions which support the capabilities outlined in the MGC SoP.

A key consideration for any changes to governance is the likely appointment of a BiA. The BiA will be appointed by the BoE as part of the Bail-in Resolution Instrument and their exact role will be determined at the point of resolution. The role could include some functions that are exercised by existing directors or senior managers, which would require a clear transfer of responsibilities to the BiA, as well as responsibilities that are specific to resolution, such as in relation to the Business Reorganisation Plan which may not require a transfer of responsibilities but the creation of roles and associated responsibilities.

During the pre-resolution contingency planning period, preparation for the appointment of a BIA by the BoE will commence, including the support that the BiA will require in their role. This includes:

1. Confirmation of BiA roles and responsibilities and subsequent updates to the governance framework as required;

2. Governance in Resolution – determining whether one or more new committees, or amendment to the responsibilities of one or more existing committees, is required to co-ordinate and oversee actions to support resolution and any associated restructuring and the process for convening committees at short notice to expedite decision making. Implementing changes as required;

3. Introducing the BiA to the Group through an induction and onboarding programme;

4. Determining whether changes are required to the Delegated Authority Framework including with regard to the responsibilities of the BiA and the existing authorities held by the VMUK Board of Directors, CEO and executive Leadership Team and implementing the changes required to be effective upon the BiA commencing in role;.

5. Share Capital and Voting Rights - Relevant actions if advised by the BiA that there are to be changes to the current share capital listing and ownership structure; and

6. Senior Manager Appointments and Approvals.

The Group will use its existing Corporate Governance and Crisis Management frameworks to provide effective governance and oversight throughout the resolution period. The Group has reviewed and assessed these frameworks and updated the documentation to show how these would be flexed to accommodate a BiA being appointed to the Group in a variety of different roles.

The Group believes it has addressed the Governance in Resolution principle and considers that it provides a resolution governance framework that is flexible and designed to provide effective oversight and timely decision making in the resolution scenario, incorporating the BiA and BoE as required.

d) Communication in Resolution

The overarching objective of Communications in Resolution is for the Group to be able to plan and deliver effective communications covering all barriers over the resolution period. Key considerations are the extent and critical timing of the communications required in a resolution scenario and the sensitivity of the communications that will be required to provide confidence to both internal and external stakeholders.

The Group maintains a communications matrix that identifies the key internal and external stakeholder groups that would be communicated with throughout the resolution timeframe. It also details the expected delivery method and lead for the communications to the individual stakeholder group. The Group’s existing Crisis Management Framework includes a Communications Cell which will be used during resolution to give clear, consistent and timely communications across all stakeholder groups.

The Group believes it has addressed the Communications in Resolution principle and considers that it provides a communications strategy designed to allow the Group to deliver effective and timely communications throughout any resolution period.

8. FUTURE ENHANCEMENTS

8.1 Overview

1. The Group recognises the importance of embedding resolution capabilities in BAU, to ensure that they remain fit for purpose.

2. Furthermore, the Group has implemented a continuous programme of testing, with the aim of identifying areas for enhancement to continuously improve the Group's resolvability on an ongoing basis as described in Section 9.2.

3. The BoE has indicated that there are a number of industry-wide issues where further work is expected. The BoE's public statement includes sector-wide findings and details of the progress made by the sector and areas where improvements are needed.

4. The Group acknowledges that some enhancements are required across the three outcomes and a programme of work is ongoing to address these enhancements and improve the Group's resolvability.

8.2 VMUK Group Enhancements

The Group believes that it has achieved the three resolvability outcomes. The Group is confident, having taken a structured approach to designing capabilities to achieve the resolvability outcomes, that it has capabilities and arrangements in place to avoid substantive barriers to resolution and they have been built in a manner that is flexible and not specific to a particular scenario.

The BoE has assessed, on the evidence provided, that the Group has areas for further enhancement to achieve the resolvability outcomes described in the RAF SoP at this point in time. As part of its continuous programme of improvement, the Group is engaging in the following enhancements to improve the Group's resolution capabilities.

a) Outcome 1: Adequate Financial Resources

The BoE has identified areas for further enhancement with the Group's approach to achieving the Adequate Financial Resources outcome (see Section 7.1 for details of this outcome), relating to the Group's Funding in Resolution and Valuations in Resolution capabilities. The Group had also self-identified these areas for further improvement.

The Funding in Resolution area for further enhancement relates to the production of resolution specific liquidity analysis. Work on enhancements is scheduled to be largely completed by the end of 2022. It is expected that this work will improve the Group's Funding in Resolution liquidity reporting capabilities and collateral identification and reporting capabilities. The Group will continue to engage with the BoE on progress as part of the ongoing resolution planning engagement.

The Valuations in Resolution area for further enhancement relates to the processes to produce robust data and flexibility of resolution specific models to adapt to different inputs and assumptions. The Group has planned work to streamline the source of data for its resolution valuations models and will undertake further assurance work to enhance its capabilities.

b) Outcome 2: Continuity and Restructuring

The BOE has identified two areas for further enhancement relating to the Group's approach to achieve the Continuity and Restructuring outcome (see Section 7.2 for details of this outcome) in relation to Restructuring Planning. These relate to planning for the execution of restructuring options and flexibility to cost options.

The Group is continuing to develop its execution capabilities to ensure identified restructuring options can be deployed and associated costs identified. The Group will continue to engage with the BoE on these items.

c) Outcome 3: Co-ordination and Communication

The BoE has identified further enhancements relating to the Group's approach to achieving the Co-ordination and Communication outcome (see Section 7.3 for details of this outcome), relating to the Group's Management, Governance and Communication capabilities. These relate to communications capabilities in a resolution and flexibility to support the wide range of potential roles a Bail-in Administrator could undertake during a resolution.

As the Group continues to carry out testing and assurance work, communications capabilities will be refined. In addition, the Group will test and enhance its flexibility to support the potential roles a BiA could undertake.

The Group is also implementing PRA Supervisory Statement SS4/21 (Ensuring Operational Continuity in Resolution)[15] which comes into effect on the 1 January 2023. As part of implementation, the Group is expanding the scope of its critical services to include additional CEFs that support the Group's core business lines. Core business lines are business lines and associated services which represent material sources of revenue, profit or franchise value for the Group.

The Group will continue to engage with BoE on these items.

8.3 VMUK Group's commitment to resolvability

1. The Group has undertaken a substantial programme of work to achieve the resolvability outcomes as detailed in Section 7, supported by the Group's simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank.

2. The Group remains committed to delivering the enhancements as set out in Section 8.2 and has plans in place to ensure enhancements are delivered.

3. The Group looks forward to continuing to work alongside the BoE and the PRA to further enhance the stability and soundness of the UK financial system.

9. VMUK GROUP'S RESOLUTION ACCOUNTABILITY AND ASSURANCE

The Group RAF is owned and approved by the VMUK Board. The Group's CFO has specific responsibility for it through his role as the Group's Recovery and Resolution Officer. It has been subject to an internal governance process to ensure sufficient and appropriate stakeholder, Committee and Board engagement, challenge and review.

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15 In the UK, OCIR policy is set out in the Operational Continuity Part of the PRA Rulebook, available at: https://www.prarulebook.co.uk/rulebook/Content/Part/320890/01-06-2022 and PRA Supervisory Statement 9/16 (collectively the "PRA OCIR Policy"). In May 2021 the PRA published revised OCIR policy. The revised Operational Continuity Part and new SS4/21 will apply from 1 January 2023.

Programme governance was put in place to support the Group's assessment of resolvability. Regular reporting on the progress of the programme has been provided to the CFO, the Finance Change Board and overarching VMUK Delivery Board. In addition, the Group's Executive Risk Committee, Board Risk Committee and VMUK Board have been updated and engaged on a regular basis on the RAF, providing opportunities for challenge and input to the Group's response to the RAF requirements.

Recovery and Resolution is in a BAU operating model, with the Recovery and Resolution team (reporting to the Group Treasurer) responsible for all aspects of consideration, and in conjunction with impacted functions, delivery of the RAF

External advisors to the Group's RAF programme have provided guidance on the high-level structure of the Group's RAF, together with consideration of the evidence required to ensure the Group has the capabilities in place to support a resolution. In addition, they provided feedback and challenge on the barrier elements of the Group's resolution capabilities.

9.1 Three Lines of Defence

In order to facilitate a clear understanding of resolution and Board and Senior Management roles and responsibilities in regard to the RAF, Board and Senior Management (first line of defence) engagement and assurance has been undertaken involving a range of activities including Board and leadership team walkthrough and education sessions, a series of Leadership Team expert review panels and a series of CFO challenge sessions.

Each of the sessions provided the senior management of the Group with an opportunity to review, challenge and input to the Group's resolution capabilities and arrangements at both a barrier-level as well as holistically across the programme of work.

The Group has undertaken cross barrier effectiveness and impact reviews to provide that first and second order impacts associated with each SoP have been cross referenced and examined in terms of impact on other SoPs.

Risk (second line of defence) has provided close and continuous assurance over the RAF project. This has included attendance at the RAF Programme Control Board ("PCB") and barrier specific working group's where second line has provided review and challenge over the key stages of business readiness for RAF compliance. In addition, Risk has provided continuous assessment and feedback over the development of barrier specific playbooks and the self-assessment, referring to the BoE guidelines and principles outlined within the relevant SoPs.

Internal Audit (third line of defence) has been engaged throughout the RAF Programme on a close and continuous basis aligning to submission, compliance and reporting dates. They have undertaken a series of assurance reviews, producing a number of memos and reports, with actions tracked through to completion. In addition, on a close and continuous basis there has been regular stakeholder engagement to discuss updates on progress, regular attendance at the RAF PCB and workstream specific Self-Assessment and restructuring working groups, expert review panel sessions and CFO challenge sessions. Internal Audit has been supported in their work by their external advisers.

9.2 Testing

A programme of testing and assurance of the capabilities and arrangements was either already in place in BAU or developed as part of the programme of work undertaken in relation to the RAF. In addition, a framework for testing resolvability capabilities on an ongoing basis has been developed and reviewed and approved by the Board during the December 2021 governance cycle.

The current framework for testing and assurance that underpins the Group's RAF capabilities can be broken down into four distinct categories:

1. Individual Barrier Led Testing and Assurance;

2. Centrally Led Testing and Assurance;

3. Risk Oversight; and

4. Internal Audit Assurance.

a) Barrier Led Testing and Assurance

Each of the workstreams aligned to an individual barrier to resolution (see Section 4.3 above) has planned and undertaken its own testing and assurance to demonstrate compliance with the applicable SoP requirements. This has included utilising existing testing and assurance performed in BAU for capabilities that were already in place and augmented to support the Group's resolvability capabilities as well as performing testing and assurance of new capabilities implemented in relation to the barrier to resolution. Third-party support for testing and assurance has also been leveraged.

b) Centrally Led Testing and Assurance

Centrally-led testing and assurance is in place to support and supplement the barrier led testing. A long-term testing and assurance programme has been developed that will test primarily via fire-drills the resolvability capabilities across the resolution timeline, all barriers and various levels within the Group including the Board, Management and ALCO engagement. Fire drills are intended to ensure accountability by each barrier owner and compliance and continuous enhancement of the RAF.

The Group has carried out various fire-drills including one with the Executive Risk Committee and one with the Board. These fire drills were conducted as a series of workshops to test co-ordination, communication and cross barrier interactions. Consideration was given for example to availability and suitability of inputs to support decision making, the material judgements assumptions and risks required in resolution and key decisions to be made by senior management in each fire drill.

The Group plans to continue to test on an on-going basis as part of a Board approved testing and assurance framework in BAU. It will be a key element of the Group's continuous improvement activities with feedback loops being created to allow lessons to be learnt and fed back into future changes and developments.

In addition, external advisers have carried out a desktop review of the Group's approach to Valuation in Resolution capabilities, against the practical expectations of an Independent Valuer.

The role of Financial Risk and Internal Audit in relation to testing and assurance is described above in Section 9.1.

10. GLOSSARY

Term	Definition
ALCO	Asset and Liability Committee – Committee reporting to the Board Risk Committee with responsibility for balance sheet management and prudential risk oversight.
BAU	Business as Usual.
BiA	Bail-in Administrator – Appointed by the BoE to oversee the resolution of a bank.
BLA	Brand Licence Agreement – Agreement entered into between VMUK and Virgin Enterprises Limited (VEL).
BoE	Bank of England – Central Bank of the United Kingdom.
BRP	Business Reorganisation Plan – A plan that must be developed and implemented after a bail-in to address the causes of the firm's failure and a description of the measures to be adopted with a view to restoring long-term viability.
CDI	CHESS Depositary Interest. Each CDI issued by VMUK represents a beneficial interest in one VMUK ordinary share and is traded, transferred and settled electronically on the Australian Stock Exchange.
CE	Certificate of Entitlement – An instrument given to creditors after a bail-in which entitles them to potential compensation once the terms of exchange are announced.
CEF	Critical Economic Functions.
CEO	Chief Executive Officer – Highest ranking executive of the Group.
CFO	Chief Financial Officer – Senior executive with responsibility for the financial affairs of the Group.
CYBG	Former name of VMUK.
FCA	Financial Conduct Authority – UK conduct regulator for financial institutions and markets.
FMI	Financial Market Infrastructure.
FSCS	Financial Services Compensation Scheme – Compensation fund of last resort in the UK, providing insurance to protect consumers when financial services firms fail.
GBP	Pound Sterling, official currency of the United Kingdom.
IFRS	International Financial Reporting Standards.
ILAAP	Individual Liquidity Adequacy Assessment Process – Document setting out a firm's approach to Liquidity and Funding.
IV	Independent Valuer – Appointed by BoE to carry out a valuation of the Group.
MREL	Minimum Requirement for Own Funds and Eligible Liabilities – Loss absorbing instruments including regulatory capital and other long-term liabilities which can feasibly and credibly bear losses if the Bank enters resolution.
OCIR	Operational Continuity in Resolution - Rules governing critical services that need to be available to one or more business units of a firm or entity of a group in order to provide functions critical to the economy. Aimed at reducing the adverse effects that the disorderly failure of a firm can have on the UK financial system.
OLAR	Overall Liquidity Adequacy Rule – The requirement that a regulated firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
PCB	Programme Control Board - Stakeholders that control the change requests of a project.

Term	Definition
PRA	Prudential Regulation Authority - Created as a part of the BoE by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of financial institutions in the UK.
RAF	Resolvability Assessment Framework - The process by which a firm is identified as being resolvable by the PRA.
RAG	Red, Amber or Green – Framework relating to project status reporting to indicate how well a certain project is performing.
RAS	Risk Appetite Statement - The amount and type of risk that an organisation is willing to take in order to meet its strategic objectives.
Recovery Plan	Recovery Plan - Outline of credible recovery actions to implement in the event of a severe stress. The objective of the plan is to enable firms to restore their business to a stable and sustainable condition.
Recovery and Resolution Officer	Recovery and Resolution Officer – Clear point of responsibility and authority for RRP production, maintenance and implementation and is a member of all the governance committees with specific responsibility for the Bank's RRP process. As at the Self-Assessment report date this position was held by the CFO.
RRP	Recovery and Resolution Plan.
RWA	Risk Weighted Asset – Assets or off-balance sheet exposures weighted according to risk. Used to determine an institution's capital requirements.
SME's	Small and medium-sized enterprises.
SoP	Statement of Policy.
SPE	Single Point of Entry – The resolution of a failed or failing banking group working down from the top company in the banking group so as to resolve the group as a whole, wherever in the group the current problems began.
TSA	Transitional Services Agreement - Contracts in place following a divestiture under which the seller agrees to provide corporate functions from the legal close of the deal until the new company or buyer transitions to its own support solutions.
VEL	Virgin Enterprises Limited.
VMUK	Parent company which owns Clydesdale Bank, formerly named CYBG.

11. TERMINOLOGY USED IN THE BOE PUBLIC STATEMENT

The BoE's public statement sets out the BoE's assessment of firms' ability to achieve the three resolvability outcomes, in line with the BoE's RAF Statement of Policy. In terms of the format, the public statement includes a thematic section as well as a short section on each firm.

Resolvability is a complex subject and more of a spectrum than a binary judgement. The BoE has used a range of terms in its public statement to differentiate between the materiality of issues identified with respect to a firm's ability to achieve each of the three resolvability outcomes. Having a limited number of clearly defined terms also allows for differentiation with respect to how effectively firms have implemented the RAF to be done in a consistent and comparable manner.

The table below summarises the key terms the BoE has used in the BoE's public statement in relation to setting out its firm specific assessments. Consistent with the RAF's focus on a firm's ability to achieve the three resolvability outcomes, the BoE has assessed (using the below terms) each firm's ability to achieve each of the three resolvability outcomes.

Terminology for Bank Public Statement	**Definition**
'No material issues currently identified'	No shortcoming, deficiency or area for further enhancement identified to date with the firm's implementation of the RAF. The Bank will continue to test a firm's capabilities and the Bank reserves the right to subsequently identify issues with a firm's approach.
'Area for further enhancement'	Issues not identified by the Bank as a shortcoming or deficiency to date, but where continued work is needed by the firm to enhance and/or embed capabilities within the business in order to further reduce execution risks associated with resolution.
'Shortcoming'	An issue which **may impede** the Bank's ability to execute the firm's preferred resolution strategy in a manner consistent with its statutory resolution objectives
'Deficiency'	An issue which **is likely to impede** the Bank's ability to execute the firm's preferred resolution strategy in a manner consistent with its statutory resolution objectives.
'Substantive Impediment', as per Section 3A and 3B of the Banking Act 2009	The formal statutory process through which the Bank, as UK resolution authority, can direct firms to remove substantive impediments to resolvability. Further information on how the Bank would exercise these powers is set out in 'Statement of Policy on the Bank of England's power to direct institutions to address impediments to resolvability.'