VIRGIN MONEY UK

Our Readiness for Resolution

2024

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1 DISCLAIMER

Important notice

This document has been produced by and is the responsibility of Virgin Money UK PLC ("VMUK" or the "Company"), the parent company of Clydesdale Bank PLC (the "Bank"), and VMUK's other subsidiaries (VMUK and its subsidiaries, including the Bank, comprising the "VMUK Group" or "Group"). This document has been prepared for information purposes only to summarise the activity which the Group has undertaken for the period from the Group's first public disclosure on 10 June 2022 up to 26 January 2024 to prepare the Group for resolution should it experience severe financial distress (our "Resolution Preparation").

This document is prepared on the basis of the Group's current structure, operating on a standalone basis and does not reflect the potential acquisition of VMUK by Nationwide which remains conditional until completion, details of which are contained in the scheme document dated 22 April 2024 and announcement released on 22 May 2024 ("Potential Acquisition").

By receipt of this document, you are deemed to accept the terms of this notice. This document and any other written or oral material discussed or distributed in connection with our Resolution Preparation (the "Information") is accurate at the date it was prepared. No undertaking to update or revise the Information is given. Our Resolution Preparation continues to evolve along with the Group's business, market conditions, macroeconomic factors, the status of the Potential Acquisition, 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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Certain of the industry, market and competitive position data contained in the Information comes from the Group's own internal research and estimates based on the knowledge and experience of the

Group’s management. While the Group reasonably believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness, and are subject to change.

2 INTRODUCTION

The BoE's Resolvability Assessment Framework ("RAF")[1] is now in its second cycle signifying an important moment in the UK's resolution regime. Focussing on the enhancements and progress made since the first cycle and addressing BoE feedback, firms must ensure that the preparations for Resolution are tested, embedded and ultimately operationally ready should they be required. The significance of the RAF and the role of BoE as UK Resolution Authority was called into sharp focus with events globally and in the UK in 2023, demonstrating the BoE's resolution powers and its role in protecting and enhancing UK financial stability, the continuity of banking services and the protection of public funds.

The Group is pleased to present this Report outlining the capabilities it has in place to support resolution if required and how it has enhanced its preparations to support the BoE in executing the Group's resolution strategy, should it be required. The Group is committed to ensuring that, in the unlikely event of a severe stress scenario, the Group could be resolved without recourse to taxpayer funding. This report summarises the activity undertaken by the Group for the period from the Group's first public disclosure under the RAF on 10 June 2022 up to 26 January 2024 and is published in compliance with the requirements of the PRA[2].

The boards of VMUK and Nationwide Building Society have agreed the terms of a Potential Acquisition, details of which are contained in the scheme document dated 22 April 2024 and announcement released on 22 May 2024. At the meetings of VMUK shareholders held on 22 May 2024 the requisite majority of VMUK shareholders voted to approve the scheme of arrangement by which the Potential Acquisition is being implemented as well as various related resolutions. As set out in the scheme document, the Potential Acquisition is still subject to certain outstanding terms and conditions to completion. Therefore, this report speaks as of its date on the basis of the Group's current structure operating on a standalone basis. If the Potential Acquisition does proceed it is expected that in the medium term, VMUK would continue to operate as a separate legal entity, with a separate board of directors and a separate banking licence held by Clydesdale Bank PLC.

Demonstrating commitment to the continual obligation to test Resolvability capabilities, the Group has invested in and progressed a substantial programme of work since the first self-assessment in 2022 on the barriers to resolution, enhancing capabilities and engaging with the BoE where it was identified that enhancements could be made.

This report demonstrates how the Group continues to ensure that capabilities are integrated within, and leverage on, business as usual ("BAU") processes. It also details the further enhancements made since the first cycle and explains how the BoE feedback received following the first cycle has been addressed. To ensure preparations remain fit for purpose and flexible, plans must also keep pace with economic conditions, regulatory change and the strategic evolution of the Group. As a result of this, the Group will address BoE feedback received from the second RAF cycle and continue to enhance its capabilities.

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

Section 3 of this Report details a summary of the key areas where further enhancements have been made following the BoE's feedback following the first cycle in 2022. This section also sets out the areas

[1] Available at: https://www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability
[2] As set out in the PRA's Supervisory Statement SS4/19 "Resolution assessment and public disclosure by firms" (amended with effect from May 2021).

for further enhancement identified by the BoE following the second RAF cycle. A brief background to the UK resolvability regime, providing context to the definitions used and content of this Report is provided in **Section 4**.

The preferred resolvability outcome for the Group has not changed from the first cycle. That is, a single-point-of-entry ("SPE") bail-in at VMUK led by the BoE as resolution authority to right size the Group to a smaller, robust entity that is well capitalised and funded. The current VMUK Group structure is set out in **Section 5** while **Section 6** describes how the SPE resolvability strategy could be used to resolve the Group in the unlikely event it becomes necessary to do so.

The Group's capabilities, actions and preparations to address the Barriers to Resolution and delivery of the Resolvability Outcomes are set out in **Section 7**.

The Group RAF is owned and approved by the VMUK Board. The Group's Resolution accountability and assurance, including second and third line review and testing approach is summarised in **Section 8**.

3 ADDRESSING BANK OF ENGLAND FEEDBACK

The approach taken by the Group since the first RAF cycle has focussed on not just addressing the BoE feedback but going beyond and enhancing capabilities; including reflecting on any learnings from resolution actions taken by the BoE and other international resolution authorities in response to bank failures in 2023. The Group continues to work on aligning the RAF with other regulatory deliverables including the Group's Recovery Plan ("RP"), Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP") and Stress Testing.

Following the first RAF cycle, the BoE identified four areas for further enhancement to the Group's existing capabilities. The progress and enhancements made by the Group to address these specific items and enhancements to the other barriers are summarised below. In its 2024 assessment, the BoE acknowledged the improvements made by the Group to address its Funding in Resolution, Valuations, Restructuring Planning and Management, Governance and Communication capabilities in response to feedback from the BoE's first assessment.

In the second cycle, the BoE has identified one new area for further enhancement, which is set out below.

3.1 BoE Feedback 2022

3.1.1 Adequate Financial Resources

3.1.1.1 Funding in Resolution.

The BoE identified enhancements to the production of resolution specific liquidity analysis.

Action taken. The Group's liquidity forecasting model has been enhanced in line with BoE Statement of Policy requirements and the process validated through testing, including an end-to-end BoE exercise; demonstrating the Group's capabilities to deliver timely and flexible reporting in a robust and controlled way. Enhancing existing capabilities, the Group has also undertaken a programme of work on increasing automation in the Group's liquidity forecasting, which continues to be tested and enhanced.

3.1.1.2 Valuations.

The BoE identified enhancements to the processes to produce robust data and flexibility of resolution specific models to adapt to different inputs and assumptions.

Action taken. The Group has taken significant strides in streamlining and automating data sources for its resolution models, enhancing the Group's capability to produce robust data that is readily available. The Group has centralised data production and collation to a specialist resource within the Group's Finance function and increased automation in mortgage data transformation, reducing reliance on manual processes.

In terms of modelling, the Group has created standardised model outputs, developed new models and undertaken significant testing. The approach adopted is flexible, allowing for multiple views to be presented, as might be required in Resolution. The Valuation models and supporting playbook documentation continue to be reviewed and enhanced.

3.1.1.3 MREL.

The BoE did not identify material issues.

Enhancements made. The Group continues to issue regularly to the market and enhance its capabilities through regular testing and playbook updates.

3.1.2 Continuity and Restructuring

3.1.2.1 Restructuring Planning capabilities.

The BoE identified enhancements to planning for the execution of restructuring options and flexibility to cost options.

Action taken. In addition to the Group's Restructuring Playbook, which provides detail on the Group's Business Reorganisation Plan and how the Group is able to provide information on financial, liquidity and regulatory capital impacts for each restructuring option; the Group has a suite of supporting playbooks which set out the processes for generic asset sales, mortgage sale and business restructuring. The Group is able to conduct sensitivity analysis with the flexibility to assess the cost of all restructuring options on an ongoing basis and captures the financial (execution and servicing), liquidity and capital impacts in option templates. The Group has identified and evaluated the systems capabilities required to be developed to enable the sale of a portfolio of mortgages. Testing with a focus on executing restructuring options in a timely manner has also taken place, including the identification a mortgage pool using specific selection criteria and subsequent valuation.

3.1.2.2 STAYS.

The BoE did not identify material issues.

Enhancements made. The Group continues to enhance the systems and arrangements in place to ensure that in the event of resolution it can produce the details of its financial contracts in a timely manner to the resolution authorities.

3.1.2.3 FMIs.

The BoE did not identify material issues.

Enhancements made. The Group continues to enhance the capabilities in place to facilitate continued access to FMI services during resolution and restructuring, including the introduction of automated alerting for faster payment services, and enhanced daily monitoring.

3.1.2.4 OCIR.

The BoE did not identify material issues.

Enhancements made. The Group continues to enhance its operational continuity arrangements to support the continuity of banking services and critical functions and has implemented the new OCIR policy regulations.

3.1.3 Co-ordination and Communication

3.1.3.1 Communications capabilities.

The BoE identified enhancements relating to communication capabilities in a resolution and flexibility to support the wide range of potential roles a Bail-In-Administrator ("BiA") could undertake during a resolution.

Action taken. The Group has enhanced its Management, Governance and Communications Playbook ("MGC Playbook") which provides an overview of the actions to be taken to ensure effective, consistent communications. In particular, a proposed skeleton Resolution Communication Plan has been prepared and is contained within the MGC Playbook, and it is intended that this would be developed into a full Resolution Communication Plan during the pre-resolution contingency planning period. The Group's approach leverages from BAU activities, including the Group's enhanced Crisis

Communications Plan, and the development of resolution specific tools, such as the Customer Communications in Resolution Playbook.

The Group's enhanced Governance in Resolution Manual describes the processes the Group would implement to support the appointment of a BiA and now incorporates a suite of additional processes and considerations that the Group has developed for effective onboarding. Leveraging existing processes for the appointment of directors or leadership team ("LT") members, which have been tested in diverse BAU scenarios, the Group's processes for onboarding a BiA are proportionate to the Group's size and simple structure. They also recognise the need for accelerated decision-making and flexibility to reflect the wide range of roles and varying timings a BiA appointment could take.

3.2 BoE Indicative Feedback 2024

The BoE shared its indicative feedback in April 2024 and acknowledged the improvements made by the Group in its Funding in Resolution, Valuations, Restructuring Planning and Management, Governance and Communication capabilities in response to feedback from its first assessment. The BoE identified Virgin Money UK's approach to assurance that its restructuring capabilities would operate together in a timely manner in a resolution scenario (including the pre-resolution contingency planning period) as an area for further enhancement. The Group is developing an action plan and will continue to engage with the BoE to address this area for enhancement. The Group will also enhance and adapt its capabilities to reflect changes related to the Potential Acquisition.

4 THE UK RESOLUTION FRAMEWORK AND THIS REPORT

4.1 The Purpose of the RAF and this Report

The UK Resolution Regime is a core part of the response and learnings from the global financial crisis ("GFC") of 2007-08 and with the BoE appointed as UK resolution authority, aims to ensure that firms are prepared to respond effectively to unforeseen severe stress events, and avoid the disruptive and costly nature of disorderly bank failure. A key focus of the regime is to allow firms to continue to provide core services to customers for a sufficient period, minimising disruption and to ensure losses do not fall on taxpayers and instead on failed firms' shareholders and investors. The significance of the regime in protecting UK financial stability was demonstrated as recently as 2023, when the BoE, following consultation with the PRA, FCA and HM Treasury considered that the conditions for exercising stabilisation powers under the Banking Act 2009 ("BA 2009") in relation to Silicon Valley Bank UK Limited ("SVB UK") were met.

Resolution planning is the process of analysing information about a banking group, developing a resolution strategy and creating then embedding 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 strategy for a particular group, and test that its preparations are adequate in case of a resolution. The RAF Assessment is repeated every two years and the BoE together with eight systemically important financial institutions make a public disclosure following each assessment. In line with other firms therefore, the Group submitted a Self-Assessment Report to the BoE in October 2023, updated in January 2024. The BoE also communicates publicly its assessment of the Group's resolvability and the resolvability of other major UK firms. This Report is the Group's second public disclosure and summarises the Group's capabilities for restoring capital, liquidity and balance sheet positions during times of severe stress and ultimately for an orderly resolution should it ever be required; with a particular focus on the changes and enhancements that have been made since the last assessment in accordance with the Group's commitment to continually enhancing capabilities.

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 ("RRO"). The RAF and this Report has been subject to an internal governance process to ensure sufficient and appropriate stakeholder, Committee and Board engagement, challenge and review.

Sections 4.2 and 4.3 of this Report briefly summarise key aspects of the UK Resolution Framework to give context to the definitions used and content of this Report.

4.2 The UK Resolution Framework

The BoE has at its disposal several stabilisation options provided for under the Banking Act 2009. These are:

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.

More detail on the UK's resolution framework and how the BoE might conduct a resolution is available from the BoE's website.[3]

4.3 The Three Resolvability Outcomes and Eight Barriers to Resolution

The BoE, in conjunction with PRA policies, has defined three Resolvability Outcomes that a firm must be able to achieve in order to support a resolution. These are:

Outcome 1: adequacy of financial resources available to absorb losses and recapitalise the institution, without recourse to public funds, in a resolution context;

Outcome 2: the ability to continue to do business and serve its customers through resolution; and

Outcome 3: the ability 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 report as the Resolvability Outcomes and the Group has summarised, with reference to the Group's particular systems and processes needed, how it achieves these.

The Resolvability Outcomes are supported by eight Barrier policies, reflecting that historically, there have been a number of features of banking groups, or the regulatory environment in which they operate which might act as potential barriers to these Resolvability Outcomes if not adequately addressed.

In particular, the BoE has identified the following potential barriers to resolution that should be considered and addressed as part of the resolution planning process:

Barrier 1. adequacy of minimum requirements for own funds and eligible liabilities ("**MREL**");

Barrier 2. capability to conduct accurate and timely valuations of assets and liabilities in resolution ("**Valuations**");

Barrier 3. access to funding in resolution ("**FiR**");

Barrier 4. the risk of early termination of financial contracts ("**STAYS**");

Barrier 5. ensuring operational continuity in resolution ("**OCIR**");

Barrier 6. ensuring continuity of access to financial market infrastructures ("**FMIs**");

Barrier 7. identification, development and execution of post-stabilisation restructuring options ("**Restructuring**"); and

Barrier 8. effectiveness and timeliness of management, governance and communications in resolution ("**MGC**").

[3] Available at: https://www.bankofengland.co.uk/financial-stability/resolution

These are referred to in this Report as the Barriers to Resolution and the Group has taken active steps to mitigate these 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 market wide stress or idiosyncratic issue which may pose a threat to the credible execution of VMUK's resolution strategy.

5 VMUK GROUP STRUCTURE

5.1 Corporate Structure

VMUK is the parent company of the Bank and of the VMUK Group. The “Group” means VMUK 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 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 6, only the Bank has been identified as ‘material’ for the purposes of assessing the Group’s resolvability/resolution entities. No other subsidiaries of the Group are considered material for resolution.

5.2 Impact of Ring-Fencing

The Group has a simple, vertical structure with the Bank being the only ring-fenced bank within it and no licensed non-ring-fenced entities. The Group’s structure and the impact of UK ring-fencing legislation is therefore not considered to be an impediment to an orderly resolution of the Group either on a full or partial basis. The Group notes that there are on-going UK Government proposals to reform the ring-fencing regime which, if enacted, would remove the Group from the regime.

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

6.1 Resolution Strategy

The preferred resolution strategy for the Group, which is advised on annually by the BoE, as UK Resolution Authority, remains a SPE bail-in at VMUK led by 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. Whilst this is the preferred resolution strategy, the approach to resolution will depend on the particular circumstances at the time of any failure should it occur and therefore it is possible that a different approach may be taken that better suits the BoE's resolution objectives. In commitment to the Group's responsibility for ensuring its own resolvability, the Group has explored and will continue to formulate and test alternative resolution strategies that reflect different stress scenarios.

The bail-in process is described in the BoE's 'Executing bail-in: an operational guide'[4] which was updated in 2021 and is supplemented by the BoE's so-called Purple Book "Approach to resolution"[5] which was updated in December 2023 at the end of a significant year for the UK's Resolution Regime and the first major test of the of the framework.

The BoE's operational guidance 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. This process includes the Bail-In Resolution Instrument ("BIRI") which would be made by the BoE at the point of entry into resolution and would formally place a firm into resolution.

This process as applied to any potential bail-in of the Group is summarised below. As described in Section 5, 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 which issues 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 be able to continue to operate as normal through a resolution of the Group; providing critical economic functions and core business lines to customers, 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 CHESS Depositary Interest holders ("CDI")[6] and certain creditors of VMUK according to the order of their priority. That means that losses would first

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

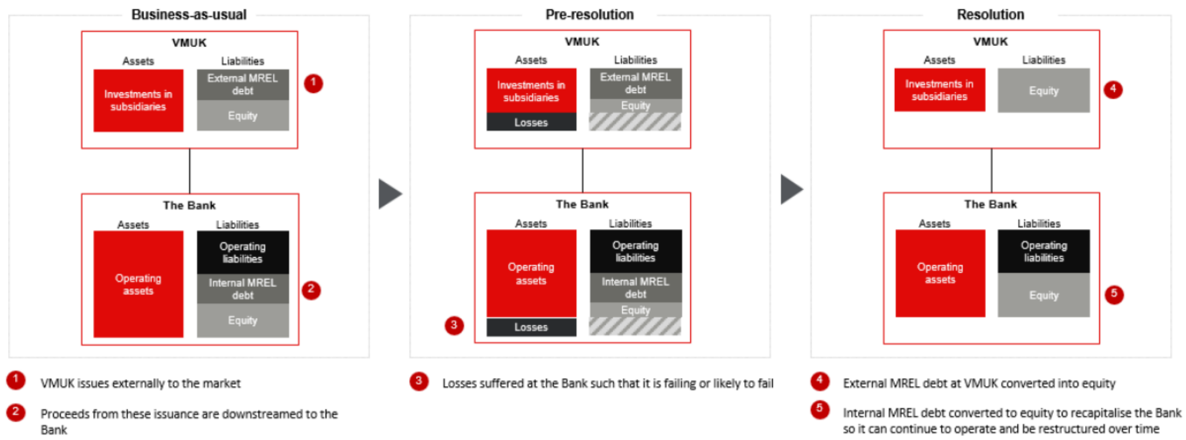
[5] Available at: https://www.bankofengland.co.uk/paper/2023/the-bank-of-englands-approach-to-resolution

[6] 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.

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.[7]

Figure 1 VMUK Bail-in Mechanics

Broadly, the impact of bail-in is illustrated below.



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 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.

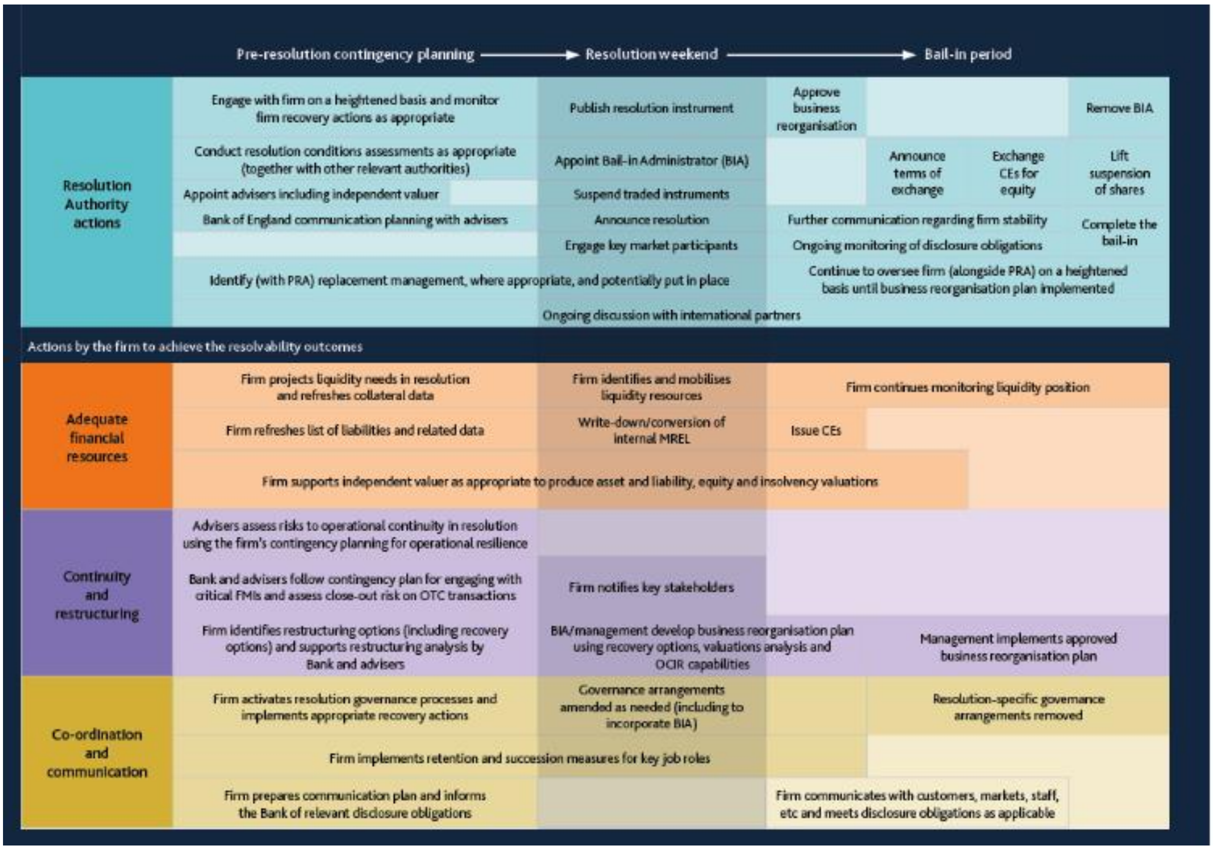
6.2 Conduct of a Resolution

The BoE has explained how it might conduct a SPE resolution in its Approach to Resolution document.[8] The proposed stylised resolution timeline is extracted below and has been used across the Group's RAF programme to confirm understanding of what capabilities are required in BAU, when and how they would be applied in a resolution scenario and to understand the dependencies between the different capabilities as they are enhanced:

[7] 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

[8] The Bank of England's approach to resolution, December 2023, available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2023/the-bank-of-englands-approach-to-resolution.pdf

Figure 2 BoE's Approach to Resolution (from the BoE's Approach to Resolution document (see Section 6.1))



The Group has systems and processes ready to implement to support pre-resolution contingency planning and the practical implementation of a SPE bail-in, if required. These are documented in a suite of playbooks that continue to be tested and embedded as part of the Group's continuing assurance of its resolvability preparations.

The Master Resolution Playbook ("MRP") is the Group's core tool for the implementation of the RAF. The MRP supports the Group's 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 "MI"); and
4. who is responsible for supporting the Board.

The MRP is in turn supported by suite of barrier-level playbooks, which provide the working level detail on how decisions are expected to be actioned and the practical actions necessary to collate and produce management information and action Board/BoE decisions; including Governance steps and detail underlying capabilities.

6.3 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. The Group's 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.

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 the Group’s daily operations are all expressly excluded from the potential scope of any bail-in.

6.4 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 2023.

6.5 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 RESOLVABILITY OUTCOMES

The Group's capabilities, actions and preparations to address the Barriers to Resolution and how these support the delivery of the Resolvability Outcomes (as described in Section 4.3) are summarised in this section.

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. **Barrier 1 MREL.** Have sufficient resources appropriately distributed across its business to meet the MREL requirements set by the BoE that can credibly and feasibly be used to absorb losses and recapitalise the Group to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence.
2. **Barrier 2 Valuations.** The Group must have the capability and data to conduct accurate, robust and timely valuations of its capital position and recapitalisation needs to assess the extent of resolution action necessary and inform the choice and use of resolution tools.
3. **Barrier 3 FiR.** The Group needs access to FiR and to be able to estimate, anticipate and monitor its potential liquidity resources and mobilise these in the approach to, and throughout, resolution.

A summary of the Group's capabilities by reference to Barrier is summarised in the following sections demonstrating the Group's continuing ability to achieve the adequate financial resources resolvability outcome.

7.1.1 MREL

The BoE's framework for setting MREL requires the Group to hold capital resources and eligible debt instruments equal to the greater of:

- two times the Total Capital Requirement ("TCR"); or
- two times the UK leverage ratio ("LR") requirement.

In addition to MREL, the Group must also hold any applicable capital buffers, which together with MREL represent the Group's loss-absorbing capacity ("LAC") requirement.

As at 30 September 2023, the Group's leverage-based LAC requirement of 7.8% of leverage exposures (or 26.6% when expressed as a percentage of Risk Weighted Assets ("RWAs")) was greater than the RWA based LAC requirement of 26.4% of RWAs, meaning the leverage measure is the binding requirement.

MREL resources were £8.0bn (2022: £7.7bn), equivalent to 9.3% of leverage exposures (2022: 9.0%) or 31.9% when expressed as a percentage of RWAs (2022: 32.1%).

This provides prudent headroom of £1.3bn or 1.5% above the binding LAC requirement of 7.8% of leverage exposures, or 5.3% above the binding LAC requirement of 26.6% when expressed as a percentage of RWAs.

Further details of VMUK's MREL resources can be found in the 'Virgin Money UK PLC Pillar 3 Disclosures 2023'.[9]

In assessing the Group's continuing adequacy of MREL capabilities, including with reference to the BoE and PRA's policies relating to MREL[10]:

- The Group's simple, vertical structure, comprising its holding company and resolution entity, VMUK, and main operating subsidiary, the Bank, has enabled issuance and subsequent down-streaming of legally compliant securities that qualify for MREL in line with the Group's preferred resolution strategy.
- All MREL instruments have been structured with support from external counsel and the Group is satisfied as to the eligibility of its MREL instruments, and that none contain features that would create difficulties writing down and/or converting the instruments in resolution.
- Appropriate arrangements are in place between the Bank and VMUK to allow the BoE to direct the immediate write-down or conversion of internal MREL instruments.
- 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) do not exceed 5 per cent. of its overall external MREL resources in compliance with BoE policy.
- The Group's current and forecast MREL position is monitored via its Capital Plan, which is reported to its Asset and Liability Committee ("ALCO") on a monthly basis.
- The Group carefully manages the tenor of its transactions to ensure that redemptions in any 12-month period (by instrument class and in total) do not exceed estimated market issuance capacity. Market access risk is further reduced by the management buffer VMUK holds in excess of its LAC requirement.
- The Group has in place Tier 1 Risk Appetite Statement ("RAS") limits, setting internal appetite for MREL resources above the Group's LAC requirement. Robust internal policies exist detailing the actions that would be taken in event of a breach of RAS settings.
- In accordance with the PRA's expectations outlined in SS19/13, VMUK submits the MRL001, MRL002 and MRL003 templates to the PRA on a quarterly basis with the same frequency, reporting end date and submission due date as its COREP C / Capital+ submissions.

The Group has also undertaken a range of testing across contractual, operational and data compliance exercises and considered the wider role of MREL in a resolution scenario, including working through the interlinkages with other barriers/workstreams. The Group maintains a Bail-in Playbook, the purpose of which is to document the processes the Group may be required to undertake during the Resolution Weekend.

Given VMUK's MREL ratio is in excess of end-state plus buffers requirement, and having and continued to assess and monitor its capabilities against the BoE and PRA's policies relating to MREL, the Group is confident that it has sufficient MREL resources that can credibly and feasibly be used to absorb

[9] Available at: https://www.virginmoneyukplc.com/downloads/pdf/vmukplc-2023-pillar-3-report.pdf

[10] The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/mrel-statement-of-policy-december-2021-updating-2018.pdf

losses and recapitalise it to a level that enables it to continue to comply with the conditions for regulatory authorisation and sustain market confidence; meeting the MREL barrier.

7.1.2 Valuations

There are four valuation methodologies the Group must be capable of supporting:

a) Valuation 1 – Failing or likely to fail valuation;
b) Valuation 2 – Asset and liability valuation;
c) Valuation 3 – Equity valuation; and
d) Valuation 4 – Estimated insolvency outcome.

Together, the "Valuations".

In continuing to meet the objective for Valuations, the Group has maintained valuation techniques and capabilities, principally through modelling capability, that produce timely and robust valuations that can support effective resolution.

Valuation activity is carried out by BAU teams within the Group's Finance function, with the models embedded and utilised within BAU. The valuation models in place are designed to be easily flexed to incorporate adjusted assumptions, this enables the production of multiple iterations and provides comfort across a range of resolution scenarios. Comprehensive Playbooks for each Valuation are in place covering the operation of the four valuation methodologies and the activities involved, which are reviewed on an annual basis.

Further, the Group continues to have in place a suitably robust and comprehensive solution to achieve the outcome of supporting an independent valuer ("IV") to carry out sufficiently timely and robust valuations supporting their reporting to the BoE. An overarching playbook exists to allow the IV to rapidly familiarise themselves with the Group and the adopted approach, detailing the initial onboarding of the IV and the proposed engagement with the IV throughout the Valuations process.

Models have been built and operationalised to support the IV and where achievable, models have been used to support BAU operations. Additionally, VMUK has used BAU models and current procedures to support the valuation model processes. All outputs, including those which are modelled, are supported by detailed data and information, which can 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.

In assessing the Group's continuing adequacy of Valuation capabilities, including with reference to the BoE policy relating to Valuations[11]:

- The Group has tested its IV onboarding process with the BoE, which demonstrated the Group's capabilities to provide necessary documentation at pace to enable any IV to rapidly familiarise themselves with the Group's Valuation capabilities.
- The Group has conducted Valuation Owner led testing on Valuation 2, which demonstrated the Group's capabilities to rapidly update and revise key input assumptions and demonstrate the sensitivity of valuation outcomes to alternative assumptions (allowing the extent of valuation uncertainty to be evaluated). As requested, this data was provided to the BoE.

[11] The Bank of England's Statement of Policy on valuation capabilities to support resolvability, available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/bank-of-englands-sop-valuation-capabilities-to-support-resolvability-may-2021.pdf

- The Group has conducted centrally led testing on all Valuation capabilities, assessing the Group's capabilities on likely resolution events, the output and MI produced and the Group's ability to flex limited assumptions and their usability by the IV and the Group's Board for decision-making.

In all cases, the testing identified no gaps in the Group's capabilities and future enhancements have been identified and progressed.

The Group is satisfied that it continues to have in place the necessary capabilities, resources and arrangements to address the Valuations barrier, with the resources to support an IV in the delivery of timely and robust valuations and documented capabilities in extensive operational documentation.

7.1.3 FiR

The Group has developed and continues to test its liquidity analysis capabilities and corresponding governance arrangements in order to address this potential barrier. Whilst not comparable given the Group's simple structure, market driven events in 2023 have nevertheless highlighted the significance of FiR and the importance of capabilities to model liquidity and mobilise collateral, given the demonstrated speed of liquidity outflow.

The Group's approach to addressing the FiR 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 and demonstrate an understanding of the implications of resolution on how these processes would be utilised.

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.

In assessing the Group's continuing FiR capabilities[12]:

- The Group has a simple structure both in terms of business model and organisational design. This simplifies the reporting requirements for liquidity analysis under FiR given liquidity analysis only need occur for a single entity (the Bank) and single currency (GBP).
- An extensive suite of liquidity and forecasting management information is available to the Group to conduct liquidity analysis on a timely basis, covering all aspects that would be required to support decision making under stress, with the adaptability and flexibility to manage through stress, or, under resolution, as required.
- The Group considers 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.

[12] 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.pdf

- 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 ("TFS") with additional incentives for small and medium-sized enterprises ("SMEs"), the scheme introduced to support the UK through periods of instability ("TFSME").
- 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.
- Since the first submission cycle, extensive cross-barrier fire drill testing and targeted simulation testing of key components of FiR have taken place, including reflecting on the learnings from the US regional banking crisis last year further enhancing and validating the Group's capabilities and identify learnings for further enhancement going forward.
- The Group has further demonstrated extensive liquidity capability through internal and regulatory stress testing and reporting, relevant stress experience and learnings from the detailed assessment of the Group's liquidity risk drivers in the context of resolution.
- As at 30 September 2023, the Group had unencumbered prepositioned collateral at the BoE representing c.£6.9bn of secondary liquidity drawing capacity via the Bank's Sterling Monetary Framework ("SMF"), which does not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes. In addition, the Group had a further c.£18.4bn of unencumbered assets eligible and readily available but not currently pre-positioned at the BoE.
- The Group has undertaken work in identifying the availability of collateral and the Group's capabilities to project collateral balances, including how they evolve in a stress and any legal and operational features that impact the management of that collateral. The Group can identify and project collateral balances for all of its unencumbered asset portfolios and confirmed through testing (described above) that it has sufficient balances to cover potential resolution scenarios.
- The Group's lending assets as at 30 September 2023 were 79% mortgages, 12% business lending and 9% unsecured. Historically the Group has relied on eligible mortgages as the sole source of collateral for funding purposes.
- The Group continues to evaluate enhancements to collateral capabilities to further strengthen liquidity, funding, and capital management tools, including increasing the number of eligible mortgages available as collateral and considering its corporate lending and unsecured retail books (particularly credit cards).
- The Group will take into account applicable legal, regulatory and reporting requirements and specific capabilities will be developed in line with the Group's strategic risk appetite as well as and data transformation journey.

The Group is satisfied that it continues to put in place the necessary capabilities to address the FiR barrier and meet the BoE's Statement of Policy on FiR.

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 resolution 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. This means the Group must:

1. **Barrier 4 Continuity of Financial Contracts (Stays).** Prevent the early termination of financial contracts. 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. The Group must be able to identify their financial contracts and have information about these financial contracts readily available during a resolution scenario.
2. **Barrier 5 OCIR.** Ensure operational continuity arrangements for the continued provision of critical services and functions (those whose failure would lead to the collapse of or seriously impede the performance of a bank's critical economic functions or core business lines) at the point of entry into resolution and through post-stabilisation restructuring.
3. **Barrier 6 FMIs**. Ensure 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.
4. **Barrier 7 Restructuring Planning.** Have the ability to plan and execute restructuring effectively and on a timely basis taking into account the objectives applicable to the Group's preferred resolution strategy.

A summary of the Group's capabilities by reference to Barrier is summarised in the following sections demonstrating the Group's continuing ability to achieve the Continuity and Restructuring outcome.

7.2.1 STAYS

Given the Group's structure, products on offer and customer base, the Group does not have a complex pool of financial contracts and the pool of counterparties are primarily UK based.

In assessing the Group's continuing capabilities[13]:

- The Group has reviewed its financial contracts to satisfy itself that it is in compliance with PRA Stays rules regarding contractual stays in financial contracts and has concluded that the small number of contracts that are not governed by English law include appropriate resolution language. A process is in place to ensure resolution wording is incorporated in any new financial contracts executed not governed by English law.
- 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.

The Group considers that it continues to address the risk of early termination of its financial contracts upon entry to resolution, by having capabilities in place to assess the risk of early termination of

[13] Including with reference to the BoE's Supervisory Statement SS42/15, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2015/ss4215.pdf

financial contracts and having relevant reporting and communications capabilities for use in a resolution scenario.

7.2.2 OCIR

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 Administration;
3. Credit Card Administration;
4. Cash Services; and
5. Payment Services.

The Group's continuing 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.

In assessing the Group's continuing capabilities[14]:

- 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.
- The Group has inserted special resolution clauses in contracts of suppliers that have been identified as providing critical services to the Group. 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 take account of specific scenarios that may arise in resolution to ensure the continuity of service throughout the bail-in and restructuring period. Early warning indicators ("EWIs") exist which will warn of potential risks to timely payment.
- The Group implemented and complies with updated PRA OCIR Policy Statement PS9/21 (Operational continuity in resolution: Updates to the policy)[15] relating to continuity of the critical services that support the Group's CEFs (listed above) and as a result the continuation of CEFs throughout the recovery and resolution timeline. This resulted in an expansion of the Service Catalogue and associated requirements to cover core business lines, rather than simply the Group's CEFs; more comprehensively supporting the Group's restructuring and bail-in capabilities by ensuring the continued running of the services that support bank franchise as well as functions critical to the wider economy.

[14] Including with reference to the BoE's Supervisory Statement 4/21, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2021/ss421-may-2021.pdf

[15] The Bank of England's Statement of Policy on operational continuity in resolution, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/may/ps921.pdf

- The Group maintains information to allow the creation of Transitional Service Agreements ("TSAs") if necessary and has the change capability necessary to support restructuring.
- A review of OCIR to provide assurance that OCIR processes and controls are operating effectively was undertaken by the Group and resolution specific scenario testing on the operational resilience of important business services which are component parts of the Group's CEFs.

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. The Group is satisfied that it continues to put in place the necessary capabilities, resources and arrangements to meet the requirements of the PRA in relation to maintaining operational continuity in resolution.

7.2.3 FMIs

The Group is a UK based firm predominantly dealing with domestic payments servicing Current Account, Mortgage, Savings and Credit Card products for both personal and business customers. The Group's resolution capabilities have therefore been focused on a small number of critical FMIs, who are supervised by the BoE bringing a degree of simplicity to the Group's preparedness.

In assessing the Group's continuing capabilities[16]:

- The Group's Payments Plan is a contingency 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. To ensure the plan remains fit for purpose, BAU FMI activity and annual testing of capabilities ensures compliance.
- The Group has a list of FMIs that provide its critical services, through reference to the BoE's FMI Supervision and its internal OCIR documentation, and these are documented in the Group's Payments Plan detailing the services they provide.
- The Group has analysed FMI Service Provider membership requirements to ascertain how these may change during financial stress or if the Group was to enter into resolution and concluded that membership requirements do not change in these scenarios. The Group also understands the existing requirements of each FMI Service Provider which must be maintained.
- The Group's critical FMIs are accessed both directly and indirectly through intermediaries.
- Following review of existing FMI contracts where the Group has direct membership access, the Group has established they facilitate continued access 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.
- For those FMIs accessed via intermediaries, where the FMI Intermediaries have the right to terminate services, the Group has either an OCIR agreement in place, or has

[16] 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

the ability to port services to another intermediary in the event of termination. Notice periods and funding requirements are understood.

- 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 introduction of automated alerting and daily monitoring as part of BAU to certain FMI services has further enhanced the Group's capabilities.

The Group is satisfied that it continues to put in place the necessary capabilities, resources and arrangements to continue to facilitate continued access to FMI services during resolution and restructuring and meet the requirements of this Barrier.

7.2.4 Restructuring

The Group views Restructuring Planning on a continuum with Recovery Planning and although the objectives differ, some of the capabilities and initiatives are shared with Restructuring capabilities designed to complement the processes and governance outlined in the Recovery Plan.

The Group has a Restructuring Playbook, which documents the Group's approach to Restructuring. The Group has taken a wide variety of inputs in reassessing and enhancing its Restructuring capabilities. It has acted upon BoE feedback and sought advice from its relationship Investment Banks in relation to restructuring options.

The Group has a shortlist of agreed Restructuring options documented and with clear ownership. Restructuring options have been developed based on the Group's Recovery Plan; including previously discounted Recovery options that may become viable under Restructuring. The Group is aware that whilst the Recovery Plan looks at short term options which will restore the Group to its former structure, Restructuring will consider changes to the way the Group operates and so it must consider longer term options or those which do not deliver immediate capital / liquidity benefits but do contribute to addressing cause of failure / long term viability. The Group's Restructuring options may also include new options identified following review of the Group's balance sheet categorisation outcomes.

Following analysis of these possible Restructuring strategies, the primary focus of the Group is identifying, evaluating, prioritising and documenting the Restructuring options.

- Detailed option templates are documented for each option covering scenario impacts and connectivity to other RAF barriers. These are all refreshed and updated following scenario testing.
- The Group has a decision-making framework which allows categorisation of the customer balance sheet by assessing meaningful sub portfolios within the franchises against a number of strategic tests. This framework has continued to be used as the basis of reviewing Restructuring options since the last RAF cycle.
- An evaluation matrix has been established to allow assessment of each Restructuring option identified with supporting detail to assign RAG status and allocate SME owners by criteria. Criteria is refreshed regularly to ensure that any new criteria relevant to the Group and the economic backdrop are included.
- Execution Steps are documented in the templates for each Restructuring option.

- The trigger point for commencing the production of the Business Reorganisation Plan ("BRP") in Resolution has been identified, incorporated into the Recovery Plan escalation framework and tested.
- The BRP framework, Restructuring Option templates, Evaluation criteria, and Balance Sheet categorisation are all in place within the Group's refreshed Restructuring Playbook which is in turn supported by a suite of generic and franchise specific asset disposal playbooks which document the considerations and processes in place to support the Group's planning for execution of Restructuring options.

In assessing the Group's continuing capabilities, the Group has[17]:

- Maintained and enhanced a robust framework for timely development of the BRP with processes in place to identify the trigger point for commencing pre contingency planning and production of the BRP.
- Ensured capabilities are in place in relation to other Barriers to Resolution given the interlinkage of Restructuring within the overall Resolution process – particularly OCIR, Valuations in Resolution and Funding in Resolution – and embed this connection to maintain restructuring capabilities during the contingency planning period.
- Continued to identify, evaluate, plan, document and quantify, test and assure potential Restructuring options (including those discounted through the Recovery Planning process).
- Carried out scenario testing, based on the Recovery Plan scenarios, to test whether the Group maintains appropriate financial resources (liquidity, funding and capital) through the restructuring process.
- Documented a clear and robust framework which will guide the creation of the BRP and support the BiA, IV and the BoE and provide assurance to the market, customers, counterparties and other stakeholders.

The Group is satisfied that it continues to hold and has enhanced its capabilities, resources and arrangements to plan and execute appropriate restructuring options for the Group, if required.

7.2.5 VMUK Idiosyncratic considerations

The Group has considered whether there are any potential barriers to resolution that are specific to the VMUK Group rather than market-wide and has summarised the Group's capabilities to manage any additional complexity that the Virgin Money Trade Mark Licence Agreement and dual listing in the UK and Australia might pose to resolution.

7.2.5.1 Virgin Money Trade Mark 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 Trade Mark Licence Agreement ("TMLA") entered into between VMUK and Virgin Enterprises Limited ("VEL"). The Group has considered its licence arrangements with the Virgin Group under the TMLA in the context of recovery and resolution. The TMLA is governed by English law and has a perpetual term. However, VEL and VMUK each have the right to terminate the TMLA in various circumstances, some of which may be relevant in a recovery and resolution context. In addition, in certain circumstances, the termination of the TMLA by VEL or

[17] 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

by VMUK, entitles VEL to receive a termination fee from VMUK. However, on termination of the TMLA, the Group is afforded a two-year rebranding period.

The Group has assessed the termination and other provisions of the TMLA 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 TMLA 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.

Nationwide and VEL have agreed that if the Potential Acquisition proceeds, the TMLA would be terminated automatically on the fourth anniversary of completion of the Potential Acquisition, following which the Virgin Money businesses will have a two-year period to re-brand. A termination fee would be payable to VEL in substitution for the termination fee arrangements under the existing TMLA.

7.2.5.1.1 **VMUK dual listing in the UK and Australia**

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 Securities Exchange (“ASX”). 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 certificate of entitlement (“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 CDIs will not be a barrier to a timely resolution.

7.3 Outcome 3: Co-ordination and Communication

In the event of resolution, the Group is expected to be able to co-ordinate and communicate effectively - both internally and with external stakeholders - to support orderly resolution. This means the Group’s capabilities should ensure:

Barrier 8 Management, Governance and Communications.

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.

A summary of the Group’s capabilities by reference to this Barrier is summarised in the following sections demonstrating the Group’s continuing ability to achieve the Co-ordination and Communication outcome.

7.3.1 Management in Resolution

In assessing the Group's continuing capabilities[18]:

- The Group has considered the potential extent of colleague turnover in a resolution scenario. To address this, the Group has in place a Key Job Roles Matrix to capture the jobs that are likely to be key in resolution together with data on role, notice periods, length of service, remuneration and any regulatory considerations. The Group understands that retaining these key individuals/roles (defined by the Group if the vacancy is likely to present an obstacle to effective resolution and any subsequent restructuring) during resolution will be important to a successful resolution.
- The Group recognises there will be a need for colleagues to support both BAU activities as well as resolution-specific activities throughout the contingency planning period and through resolution. The Group has existing principles for financial retention which could be used during the pre-resolution contingency planning period to develop a proposed retention plan for resolution. The process for any retention would be led by the Group's Head of Reward and Employee Relations and would involve assessing information in the Key Job Roles Matrix, considering the circumstances which trigger the resolution event and any impact on key roles and be driven by an overriding principle of fairness, and of not rewarding for failure. It is anticipated that financial retention will be used by exception.
- As a Purpose-led organisation, colleague wellbeing is, and will continue to be, an important consideration throughout the resolution process. As standard there are a significant number of resources available to colleagues and mental and physical wellbeing will be monitored and maintained where possible.
- The Group has a well-developed approach to succession planning which is carried out centrally for the Group's Leadership Team and direct reports and by business area for roles below this. Succession planning forms part of regular business unit and talent discussions across the Group and is reviewed regularly. The Group's well-established approach to succession will be an important tool to mitigate the risks arising from colleagues choosing to leave during the resolution period and from any decisions the BoE makes regarding the replacement of management potentially deemed responsible for failure.
- A Management in Resolution checklist brings this all together to ensure key steps are taken during the pre-resolution contingency planning period; and covers actions such as refreshing the Key Jobs Roles Matrix, reviewing retention measures, implementing succession plans and reviewing responsibilities and incentives.

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

7.3.2 Governance in Resolution

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

In assessing the Group's continuing capabilities[19]:

- The Group recognises the need for rapid decision-making throughout the resolution period in the context of uncertainty. The Group's enhanced Governance in Resolution Manual, maintained by the Group Company Secretary, details how the Group will leverage upon existing processes and procedures (including Group Crisis Management Procedures) to ensure that effective decision-making and oversight arrangements will be in place throughout the resolution period, with a particular focus on executing decision-making and changes quickly and diligently.
- Existing Board, Board committees and executive committees are expected to remain in place and strawman committee charters for use during resolution have been prepared.
- Processes and supporting information in relation to Directors' duties and senior management responsibilities are also contained within the Governance in Resolution Manual with consideration on how any disagreements are to be resolved, in conjunction with the BiA as appropriate. Indeed, the Group recognises that a key consideration for any changes to governance is the likely appointment of a BiA by the BoE as part of the BIRI. Whilst mindful that the exact role of the BiA will be determined at the point of resolution and could vary considerably in terms of the level of intervention; the Group has set out in the Governance in Resolution Manual the processes and considerations for effective onboarding of a BiA. Standing arrangements which already provide for the effective onboarding and induction of Directors and Executive Leadership Team members will be accelerated and ensure that considerations such as IT, key resources and contacts are provided as a priority.
- As VMUK is a registered foreign company in Australia under the Corporations Act 2001, an application for an Australian Business Registry Services director ID must be made before a director is appointed. This process is well-rehearsed under the standing arrangement for Director appointments and included in the Governance in Resolution Manual and so this is not considered to present a barrier to resolution.

The Group considers that it continues to address the Governance in Resolution principle and 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 the BoE as required.

7.3.3 Communication in Resolution

In assessing the Group's continuing capabilities[20]:

- the Group has had regard to 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. In particular, the Group has sought to overcome the risks of insufficient infrastructure for timely communications and the demand the resolution will generate as well as inconsistent messaging.

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

[20] The Bank of England's Statement of Policy on Management, Governance and Communications, 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's Crisis Management Framework includes a Communications Cell which will be used during resolution to ensure clear, consistent and timely communications across all stakeholder groups. This Framework includes the Group's Communications Stakeholders matrix which identifies the key internal and external stakeholder groups that would be communicated with throughout the resolution timeframe. Template internal and external announcements for use at the point of resolution have also been prepared.
- The MGC Playbook provides an overview of the actions to be taken to ensure effective, consistent communications. In particular, a proposed skeleton Resolution Communication Plan has been prepared and is contained within the MGC Playbook, and it is intended that this would be developed into a full Resolution Communication Plan during the pre-resolution contingency planning period; leveraging from BAU activities such as the Crisis Communications Plan and resolution specific tools such as the Customer Communications in Resolution Playbook.

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

8 VMUK GROUP’S RESOLUTION ACCOUNTABILITY AND ASSURANCE

8.1 Governance and Senior Management Oversight

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. To support the CFO in discharging his responsibilities, the RAF programme is managed by the dedicated 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.

A Recovery and Resolution working group was established following BoE feedback to ensure appropriate focus on barrier specific feedback. In addition, regular reporting on the progress and enhancements of the RAF programme is provided to the CFO, the Group’s Asset and Liability Committee, Board Risk Committee (“BRC”) and VMUK Board providing opportunities for challenge and input to the Group’s response to the RAF requirements.

The Group has continued to engage appropriate external support to address specific aspects of the self-assessment.

8.2 Second Line and Third Line Review

The Group’s Risk function (second line review) has been engaged since the outset of the RAF Programme. As Resolution work within the Group is embedded as BAU, centrally managed by the dedicated Recovery and Resolution Team, Risk has continued to operate an oversight model, applying the principles of best practice laid out by the BoE and continuing to provide assurance and continuous engagement across the barriers.

The Group’s Internal Audit (“IA”) (third line of review) has continued to provide independent assurance over the RAF, again applying BoE best practice principles to review playbooks, the Group’s self-assessment, attending working groups, fire drills and CFO Challenge Sessions. Given the volume and materiality of controls on RAF, it is included and risk assessed as a separate entity within the ‘audit universe’ used to drive audit planning. The Group’s RAF has been reviewed on an annual basis and IA oversight will continue to evolve as controls become more embedded.

The Group’s approach to Testing and Assurance has been enhanced by the addition of four distinct objectives that are applied to the resolution-focussed testing undertaken:

1. Completeness against RAF requirements (“SoP”)
2. Accuracy
3. Ability to execute
4. Sustainability

Testing is assessed against these outcomes to ensure clarity of goals and outcomes, effectiveness and applicability.

8.2.1 Barrier Led Testing and Assurance

As Resolution Planning becomes embedded within the Group, primary responsibility for vertical testing is carried out at barrier level with Barrier Owners (assigned to each of the Barriers to Resolution described in Section 4.3) responsible for determining the testing they are undertaking, the frequency of that testing, and providing assurance that the capabilities in place are fit-for-purpose. The Recovery and Resolution team are responsible for ensuring that the testing objectives detailed above are applied appropriately in the design and application of the testing.

Since the first RAF cycle, the Group has undertaken significant barrier led testing and assurance across all eight Barriers to Resolution conducted by teams and departments across the Group. Testing has included running Valuation models, simulation exercises, testing data systems, leveraging BAU testing but with resolution specific elements and conducting BAU assurance reviews of policies, processes and frameworks in line with the Group's review timescales. The testing confirmed the Group's capabilities with all learnings and enhancements identified captured and actioned.

8.2.2 Centrally Led Testing and Assurance

Centrally led testing and assurance conducted by the Group's dedicated Recovery and Resolution team, provides a layer of assurance above barrier led testing that the capabilities in place are fit-for-purpose, flexible on an ongoing basis and would work throughout resolution. As with barrier-led testing and assurance, testing is assessed against the testing objectives described above.

Since the first RAF cycle, the Recovery and Resolution team has facilitated a number of fire drills, workshops and walkthroughs, directed at all levels of the Group, and covering a broad range of topics. A particular focus for the Group has been the MGC and FiR barriers, addressing BoE feedback in certain areas. Significant preparation by relevant teams has gone into each of these fire drills and the Group recognises that the barrier interlinkages tested in fire drills are critical to make the RAF process work. Learnings from fire drills carried out will be incorporated into future testing to better inform and continuously drive improvement in testing and assurance.

8.2.3 Holistic Testing

The Group's Recovery and Resolution team also conducts holistic testing generally directed at the Group's Executive Management and Board, with external support, if required. This testing is typically focused on strategic decision making, management and board roles and responsibilities in a resolution scenario.

8.2.4 Policies, Standard and Controls

The Group manages risk using a single Risk Management Framework, supported by a suite of policies. All policies link to the principal risks facing the group, such as Financial Risk or Operational and Resilience Risk. Minimum standards for Recovery and Resolution are explicitly included in the Funding and Liquidity Risk Policy Standard and the Capital Risk Policy Standard.

An extensive range of controls are in place which support compliance with policies and form the basis for testing activity and as an enhancement the Group continues to ensure minimum standards for Recovery and Resolution are embedded appropriately.

9 GLOSSARY OF TERMS AND ABBREVIATIONS

Term or Abbreviation	Definition
ALCO	Asset and Liability Committee – Committee reporting to the Board Risk Committee with responsibility for balance sheet management and prudential risk oversight.
ASX	Australian Securities Exchange.
Bank	Virgin Money UK PLC ("VMUK") together with its subsidiaries (the Group).
BAU	Business as usual.
BiA	Bail-In Administrator – appointed by the BoE to oversee the resolution of a bank.
BIRI	Bail-In Resolution Instrument – Bank of England instrument that outlines the bail-in actions.
BoE	Bank of England – Central Bank of the United Kingdom.
BRC	VMUK Board Risk Committee - responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, reviewing and approving various formal reporting requirements, promoting a risk awareness culture within the Bank and ensuring that the Bank's strategy, principles, policies and resources are aligned to the risk appetite set by its parent company, VMUK, as well as to regulatory and industry best practices.
BRP	Business Reorganisation Plan – a plan which must be submitted to the Bank of England within 1 month of a bank entering Resolution.
CDI	CHESS Depository Interest.
CE	Certificate of Entitlement – issued to a bank's creditors during Resolution, enabling them to be provided with shares or other instruments once the final valuation is complete.
CEF	Critical Economic Function.
CFO	Chief Financial Officer – senior executive with responsibility for the financial affairs of our Group.
Clydesdale Bank PLC	Clydesdale Bank PLC (Consolidated). The Group has a simple, vertical structure that has one ring-fenced bank, Clydesdale Bank PLC ("CB").
COREP	Common Reporting Framework – standardised European reporting requirements for Capital and risk.
EWI	Early Warning Indicator – measures designed to identify stress events at an early stage.
FCA	Financial Conduct Authority – UK conduct regulator for financial institutions and markets.
FiR	Funding in Resolution – one of the potential barriers to resolution.
FMI	Financial Markets 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.
GFC	Global Financial Crisis – term used for the financial crisis of 2007-2008, including the subprime mortgage crisis in the USA and the collapse of Lehman Brothers.
Group	VMUK together with each of its subsidiaries.
IA	Internal Audit – business unit constituting third line of defence, providing independent assurance over the key business risks, change initiatives, issues and controls.
ICAAP	Internal Capital Adequacy Assessment Process – document setting out a firm's approach to Capital.
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 a bank in resolution.

Term or Abbreviation	Definition
LAC	Loss-absorbing capacity.
LCR	Liquidity Coverage Requirement – Basel III metric designed to ensure banks maintain an adequate stock of unencumbered high-quality liquid assets to meet liquidity needs for 30 days in a combined stress scenario.
LR	Leverage Ratio.
LT	Leadership Team – CEO's leadership team comprising various senior executives and department heads.
MGC	Management, Governance and Communication.
MI	Management Information – information on the Bank's operations provided to management allowing analysis of trends and identifying and solving problems.
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.
MRP	Master Resolution Playbook – VMUK internal document which provides an overview of the resolution process.
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.
PLC	Public Limited Company – a limited liability company under UK company law with a minimum share capital of £50,000 whose shares may be freely sold.
PRA	Prudential Regulatory 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.
PS	Policy Statement – published by a regulator.
RAF	Resolvability Assessment Framework - the process by which a firm is identified as being resolvable by the PRA.
RAS	Risk Appetite Statement - the amount and type of risk that an organisation is willing to take in order to meet its strategic objectives.
RP	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.
RRO	Recovery and Resolution Officer – clear point of responsibility and authority for Recovery and Resolution Plan ("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.
RWA	Risk Weighted Asset – assets or off-balance sheet exposures weighted according to risk. Used to determine an institution's capital requirements.
SME	Small and Medium Enterprise - for LCR purposes an entity is considered an SME if it has deposits of less than 1 million Euros; the same definition is adopted in the calculation of the Bank's OLAR.
SME	Subject Matter Expert.

Term or Abbreviation	Definition
SMF	Sterling Monetary Framework – BoE operations in the sterling money markets, designed to implement Monetary Policy Committee decisions and reduce the cost of disruption to the critical financial services supplied by SMF participants. SMF operations include providing liquidity support to SMF participants through facilities such as Indexed Long-Term Repo ("ILTR") and Contingent Term Repo Facility ("CTRF").
SoP	Statement of Policy – published by a regulator.
SPE	Single point of entry – A single point of entry resolution involves the application of resolution powers at a single resolution entity within the group, generally the parent or holding company.
SS	Supervisory Statement – PRA statements used to set flexible frameworks for firms, incorporating new and existing expectations. They focus on the PRA's expectations and are aimed at facilitating firm and supervisory judgement in determining whether they meet those expectations. They do not set absolute requirements which are contained in rules.
TCR	Total Capital Ratio.
TFS	Term Funding Scheme - SMF facility providing 4-year funding to financial institutions against SMF qualifying collateral.
TFSME	Term Funding Scheme with additional incentives for SMEs.
TMLA	Trade Mark Licence Agreement.
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.
Valuation 1	'Failing or likely to fail' valuation to provide an updated regulatory balance sheet (on an accounting basis).
Valuation 2	'Asset and liability' valuation on a fair, prudent and realistic basis – hold or disposal.
Valuation 3	'Equity' valuation - Estimated market value of equity reflecting resolution and restructuring.
Valuation 4	'Estimated insolvency' valuation - Estimated recoveries to creditors in a hypothetical insolvency counterfactual to inform NCWO.
VEL	Virgin Enterprises Limited.
ViR	Valuation in Resolution.
VMUK	Virgin Money UK PLC, the parent company which owns Clydesdale Bank, formerly named CYBG PLC.

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