Sensitive Sector Statement

Introduction

'Building a Brighter Future' and 'Straight up ESG' are two goals of our Sustainability strategy. Our objective is to grasp the longer-term opportunities of sustainability, while mitigating the imminent risks from climate change and social inequality.

The purpose of this Statement is to make it clear who we lend to, and how we view potential clients who are operating in sensitive sectors.

Virgin Money's operations are all UK-based, as are most of our business customers'. We allow non-resident lending, and lending to non-UK-registered companies whose business activity is typically located in the UK, but it's subject to additional controls due to the higher credit risks.

The environmental and social impacts of providing financial services to our business and personal customers are mainly indirect. Even so, we are committed to working with our customers to understand their impacts, as well as their approach to environmental and social sustainability. This includes customers who are involved in agriculture, a sector in which we have long enjoyed an established presence and high relative market share.

We will continue to review emerging sensitive sectors and update this policy statement as things develop.

Risk management

Effective risk management is critical to the success of the Group's strategy. A strong business is a fundamental requirement if we are to succeed in our purpose of making our customers and stakeholders 'happier about money'.

We control our credit risk by limiting the amount of risk we're willing to accept, while pursuing our strategic objectives. To do this, we first define a set of qualitative and quantitative limits in relation to our credit risk concentrations – whether to one borrower, a group of borrowers, or within geographical, product or industry segments. These limits become our risk appetite settings and are reviewed and approved annually by the Board.

Across the Group, credit risk is managed through:
- Ongoing approval and monitoring of individual transactions.
- Regular asset quality reviews.
- Independent oversight of credit decisions and portfolios.

Credit Risk supports and encourages the Group's sustainability commitments and responsibilities. The impact on and risk from climate change, together with other environmental and social risk considerations, are factors we need to consider when assessing the credit risk of our customers.

We manage the credit risk associated with lending by applying detailed lending policies and standards. These outline our approach to lending, underwriting criteria, credit mandates, concentration limits and product terms.

The Group takes a flexible approach to credit management. If issues are identified, or if credit performance deteriorates (or is expected to) due to borrower, economic or sector specific weaknesses, we will do all we can to support our customers through these periods.

Roles and responsibilities for the management, monitoring and mitigation of credit risk within the Group are clearly defined. Significant credit risk strategies and policies are approved, then reviewed annually, by the Credit Risk Committee.

When we are carrying out a customer credit risk assessment, Credit Policy requires that their impact on, and risk from climate change, as well as other social risks are taken into consideration. Such impacts and risks are not usually a material issue for most of our business lending loan book, which is predominantly made up of small to medium-sized businesses (by volume) located in the UK.

Anticipating tomorrow's risks is key within our credit assessment process. That's because our lending will be repaid from future cash earnings. Our assessments seek to:

- Identify relevant legislation and / or regulatory requirements that may affect a customer's business activities.
- Assess the procedures and policies a customer uses to identify and manage any environmental and social risks they face.
- Identify sites where the customer may be subject to environmental licensing or regulatory requirements. Plus we look at their current or historical activity, which may lead to contamination and environmental liability.
- Consider the physical and transition risks of Climate Change.
- Predict any changes, negative and positive, in social expectations on a customer's business. This includes anticipating when engagement with that customer might lead to damage (or enhancement) of the Bank's reputation.

We expect all our customers to comply with applicable legislative, regulatory, and licensing requirements.

ESG risks (including climate change) affect all businesses or are likely to in the future. We have identified the highest risk sectors and have limited (or eliminated) our exposure to them. Lending to businesses that offer support services to these sectors – such as labour supply, equipment, transport, technical and professional services – is permitted.

These sectors are outlined below:

Adult entertainment services
The Bank does not lend to adult entertainment services including escort agencies, sauna or massage parlours, and lap dancing or similar clubs.

Animal welfare
The Bank expects customers to comply with legal requirements and voluntary standards related to animal welfare. The Bank doesn't lend to businesses trading in:

- Wildlife and endangered species (or products made from them).
- Commercial, non-healthcare-related animal testing (including cosmetics testing).
- Fur products and activities (except regulated, commercial farming activities).

Defence and armaments
Due to the ethical and social risks, the Bank does not lend to businesses that are involved in the manufacture or sale of weapons, which are subject to a treaty or convention, to which the UK Government is a signatory (such as antipersonnel mines and cluster munitions, as well as nuclear, biological, and chemical weapons).

The Bank will lend to businesses that supply into the global defence sector subject to being satisfied that these businesses hold all necessary permissions to operate in this sector. The Bank will also lend to businesses that manufacture or sell firearms for sporting use, or for personal ownership, providing all required licensing is held.

Digital currency
The Bank does not lend to digital currency issuers, including digital currency service providers and dealers.

Forestry
The Bank does not lend towards non-sustainable, large-scale deforestation activities for alternative land use purposes, including food, soya and palm oil production.

Manufacturing
The Bank lends to manufacturing industries, including those that are more carbon-intensive such as cement manufacturing and metal refining.

Power generation
The bank does not lend to coal-fired power plants.

Resources – mining and minerals
The Bank does not lend to businesses involved in the exploration, extraction, or mining of coal, whether on the surface, or underground. Nor does the Bank lend to businesses involved in the wholesale trading of precious metals and minerals including gold, silver, platinum, diamonds, emeralds, and rubies. Businesses directly involved in Deep Sea mining for any resources are also not supported.

Mining, quarrying and extraction of other mineral resources, where all required licensing is held, is permitted. Lending to the mining and minerals sector is restricted to UK-based businesses.

Resources – oil and gas
The Bank does not lend to businesses that generate revenue directly from oil and gas extraction (including extracting oil from oil sands, or gas from hydraulic fracturing).

Tobacco
The Bank does not lend to tobacco farming or manufacturing businesses.

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