

ESG Basis of preparation

Virgin Money (UK) PLC ('Group') is a public company operating solely in the UK. This document outlines the scope, methodologies, assumptions and sources of information used in selected metrics that have been subject to limited assurance.

There are various data limitation challenges associated with the estimation of financed emissions due to the lack of available, granular, reliable and verifiable customer data. More information can be found in the Metrics and Targets section of the Climate-related Disclosures report within the Group's 2023 Annual Report and Accounts.

VIRGIN  MONEY UK

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
Scope 1 emissions – location and market based (tCO ₂ e) ¹	This includes emissions generated from gas and oil used in all buildings from which the Group operates, as well as emissions generated from Group-owned and leased vehicles used for business travel, and fugitive emissions arising from the use of refrigerant gas (f-gas) containing equipment such as air conditioning and chiller / refrigerant plant to service the Group's property portfolio.	<p>We report on all material Scope 1 emissions which we deem ourselves to be responsible for.</p> <p>We use an operational control approach to define our organisational boundary. Where an activity falls under our operational control, we report 100% of the associated emissions. There are no activities that are not under our operational control.</p> <p>All properties under our control during the year are included, taking into consideration acquisitions and disposals throughout the reporting period from the date operational control was gained or lost.</p>	<p>Location based emissions (Scope 1)</p> <p>Scope 1 Gas</p> <p>For the majority of our properties, the gas consumption is known, and actual consumption data is used in the calculation. For the remaining properties where this information is not available gas consumption is estimated using either an average rate based on consumption data for the prior year; or by calculating a monthly consumption estimate taking an average rate per m² from our known consumption at other Group properties.</p> <p>Once gas consumption is known or estimated, it is converted to tCO₂e using the 2023 UK Government emissions factor² in accordance with Government reporting guidelines³.</p> <p>Scope 1 Business Travel</p> <p>An average mileage per day is estimated from odometer readings, where available, or colleague mileage submissions. Estimated average mileage per day is multiplied by the number of days the car is held by the employee in the period. Estimated mileage is then applied to the UK Government emissions factor, which is derived based on the fuel type of the vehicle, and the type of company car (ie. status and needs), sourced from the Department for Energy Security and Net Zero⁴ on a tCO₂e/pkm basis.</p>	<p>We use third parties to help measure and collect data for Scope 1 emissions. ISS measure consumption for gas, and then Cushman & Wakefield (C&W) compile the data in half year files, with VM providing final checks and approvals.</p> <p>Data on consumption of natural gas is collected from automated half-hourly meter readings or manual meter readings. If not available, then invoiced amounts are used as the next best source and may contain a mix of actual or estimated consumption. Diesel and Kerosene usage is from invoiced amounts.</p> <p>Mileage data for Scope 1 Business Travel is collected from odometer readings from Arval car lease company and direct from colleagues via a survey undertaken every 6 months for company car status and job needs users.</p>

¹ The reporting period for Scope 1 & 2 emissions is 1 July 2022 to 30 June 2023

² Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023>

³ "Environmental Reporting Guidelines: including streamlined energy and carbon reporting and greenhouse gas reporting" issued by the Department for Energy Security and Net Zero, Department for Environment, Food & Rural Affairs, and Department for Business, Energy & Industrial Strategy. <https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>

⁴ Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023>

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
			<p>Scope 1 Refrigerants</p> <p>A third party maintains a database of chiller/refrigerants and air conditioning units. Data is taken from the database at a specific point in time during the reporting period. The default leakage rate, taken from UK Government reporting guidelines is applied to the charge capacity per asset to estimate the leaked emissions during the reporting period. The emission factors, from the 2023 UK Government emission factors⁴, are applied to the estimated leakage rates taken from the Department for Energy Security and Net Zero guidance Environmental Reporting Guidelines⁵.</p> <p>This calculation is an estimate for the year based on point in time data.</p> <p>Market based emissions (Scope 1)</p> <p>We purchase green gas and receive certification of renewable gas guarantees of origin (RGGOs). This certifies that the gas consumed has been produced from renewable sources. The percentage of renewable gas has been taken from the RGGO. The emission factor for Biogas is from the 2023 UK Government emissions factors⁴. The emission factors are applied to the same consumption data used for the location based calculation.</p>	<p>Refrigerant gas usage is taken from a database of all f-gas containing equipment controlled by the Group, and an assumed leakage rate is applied based on Government reporting guidance.</p> <p>We use the 2023 UK Government emission factors⁴.</p> <p>For market based emissions the same consumption data is used as for the location based emission calculations.</p>

⁴ Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023>

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
Scope 2 emissions – Location and Market Based (tCO ₂ e) ⁶	Emissions generated from the use of electricity in all buildings from which we operate.		<p>Location Based Emissions (Scope 2)</p> <p>Scope 2 Electricity</p> <p>For the majority of our properties, the electricity consumption is known, and actual consumption data is used in the calculation.</p> <p>For the remaining properties where this information is not available electricity consumption is estimated using either an average rate based on consumption data for the prior year; or by calculating a monthly consumption estimate taking an average rate per m² from our known consumption at other Group properties.</p> <p>Once electricity consumption is known or estimated, it is converted to tCO₂e using 2023 UK Government emissions factor⁷ in accordance with Government reporting guidelines⁸.</p> <p>Market Based Emissions (Scope 2)</p> <p>We purchase renewable energy guarantees of origin (‘REGOs’) so can demonstrate the electricity consumed has been produced from renewable sources. The percentage of renewable energy is taken from the REGO provided by the utility provider. The emission factors are applied to the same consumption data used for the location based calculation. For electricity we consume that is not covered under our REGO contract i.e. third-party managed space occupied by us, we apply an EU-sourced residual emissions factor for the GB electricity market⁹.</p>	<p>We use third parties to help measure and collect data for Scope 2 emissions. ISS measure consumption for electricity, and then C&W compile the data in half year files, with VM providing final checks and approvals.</p> <p>Data on consumption of electricity is collected from automated half-hourly meter readings or manual meter readings. If not available, then invoiced amounts are used as the next best source, and may contain a mix of actual or estimated consumption.</p> <p>For market based emissions the same consumption data is used as for the location based emission calculations.</p>
Scope 1 & 2 location and market based intensity (tCO ₂ e/FTE) ⁶	Intensity ratio of GHG per average FTE for scope 1 and 2 location-based emissions and market based emissions.		<p>Intensity measures</p> <p>We calculate the intensity of our Scope 1 & 2 emissions (both location and market based) by calculating the emissions per average FTE.</p>	Average FTE used in the Intensity Ratio is sourced from Core HR systems and excludes contractors and colleagues on a long term absence such as parental leave.

⁶ The reporting period for Scope 1 & 2 emissions is 1 July 2022 to 30 June 2023

⁷ Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023>

⁸ “Environmental Reporting Guidelines: including streamlined energy and carbon reporting and greenhouse gas reporting” issued by the Department for Energy Security and Net Zero, Department for Environment, Food & Rural Affairs, and Department for Business, Energy & Industrial Strategy. <https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>

⁹ 2022 AIB European Residual Mix 2022 | AIB (aib-net.org)

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
Mortgage Portfolio by EPC rating (%) ¹⁰	Percentage, by volume, in each Energy Performance Certificate(EPC) band – A to G, with A being the most energy efficient and G being the least energy efficient.	<p>Full Mortgage Lending portfolio with a current, or expired, EPC.</p> <p>Expired EPCs are used where no current EPC is available. Whilst there is a risk that EPC data may be outdated, using EPC rating from an expired EPC is assumed to provide better data insights than excluding the property.</p>	Each Mortgaged property is matched to an EPC by a specialist third-party climate data provider Hometrack.	<p>Source Mortgage data is fully reconciled to financial reporting.</p> <p>EPC data is sourced by Hometrack from data published by the Ministry of Levelling Up, Housing and Communities. Mortgage data is matched to EPC data at the property level by Hometrack.</p>
<p>Scope 3: Absolute Mortgage financed emissions (tCO₂e)¹¹</p> <p>Scope 3 Mortgage financed emissions economic intensity (tCO₂e/£m lent)¹¹</p> <p>Scope 3 Mortgage financed emissions physical intensity (kgCO₂e/m²)¹²</p>	Emissions represent our share of GHG emissions, expressed as carbon dioxide equivalent (CO ₂ e), that we facilitate through our Mortgage portfolio.	<p>In line with the PCAF Standard, we include on-balance sheet loans and lines of credit used for the purchase and re-finance of residential property, including buy to let. Calculations are performed at a loan level.</p> <p>This does not include residential property owned by a business under commercial real estate.</p>	<p>Emissions are estimated at a property-by-property level with the methodology varying depending on the data available.</p> <p>For 79% of the portfolio¹³ which has available EPC data, an average energy consumption per m² for gas and electricity by EPC band by property type is calculated from government consumption tables¹⁴ and EPC data. The estimated consumption per m² is then multiplied by the actual floor area of each property per its EPC certificate to reach an estimate of the consumption specific to each property. UK Government electricity and gas conversion factors¹⁵ are then applied to estimate emissions per property. This calculation was given a PCAF data score of 3.</p>	<p>Mortgage lending portfolio, fully reconciled to financial reporting.</p> <p>EPC data is sourced by Hometrack from data published by the Ministry of Levelling Up, Housing and Communities. Mortgage data is matched to EPC data at the property level by Hometrack.</p> <p>Energy consumption tables are sourced from the Government and emission factors applied based on the available data points - EPC Band, Property Type, Floor Space, Region.</p> <p>UK Government Grid conversion factors are used to determine the tCO₂e.</p>

¹⁰ Based on the position as at 31 March 2023

¹¹ All financed emissions reporting is based on the customer balance as at 31 March 2023

¹² All financed emissions reporting is based on the customer balance as at 31 March 2023

¹³ Customer balances as a percentage of total lending balance

¹⁴ Energy Trends: December 2017, special feature article - Domestic energy consumption by energy efficiency and environmental impact, 2015 "National Energy Efficiency Data Framework (NEED): Energy Performance Certificate Analysis": <https://www.gov.uk/government/publications/energy-trends-december-2017-special-feature-article-domestic-energy-consumption-by-energy-efficiency-and-environmental-impact-2015>

¹⁵ Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. Greenhouse gas reporting: conversion factors 2022: <https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
			<p>Expired EPCs are used where no current EPC is available. Whilst there is a risk that EPC data may be outdated, using EPC rating and floor space data from an expired EPC is assumed to provide better data than estimating emissions based on property type alone, consistent with properties where no EPC data is available.</p> <p>The remaining portfolio includes properties not matched to an EPC, where EPC banding and floor space is not known.</p> <p>For 19% of the remaining portfolio, an average energy consumption per property type and country is taken from UK government consumption tables¹⁶ and applied in combination with portfolio property type and country data to estimate the energy consumption per property. UK Government electricity and gas conversion factors¹⁷ are then applied to estimate emissions per property. This calculation was given a PCAF data score of 5.</p> <p>The remaining 2% of the portfolio has no EPC or property type data available and estimated emissions are based on the average emissions of properties in VMUK's portfolio calculated through EPC matching for properties with similar region and product type characteristics. This calculation was given a PCAF data score of 5.</p> <p>Attribution factor is calculated with reference to LTV based on the spot balance and original valuation.</p> <p>Physical emissions intensity is calculated using estimated total property emissions (expressed in kgCO₂e) divided by estimated total floor space (m²). Actual floor space is used where known from EPC data. For the remaining population floor space is estimated:</p> <ul style="list-style-type: none"> • When property type and region are known, floor area is estimated based on property type and region using the EPC matched property floor space data. • When property type is unknown, but region is known, floor area is estimated based on product type and region using EPC matched property floor space data. <p>Economic emissions intensity is calculated using absolute mortgage financed emissions (expressed in tCO₂e), divided by the assessed lending balance (£m) at 31 March 2023.</p>	

¹⁶ National Energy Efficiency Data-Framework (NEED): consumption data tables 2021 "Additional consumption tables: England and Wales, 2019" and "Additional consumption tables: Scotland, 2019" <https://www.gov.uk/government/statistics/national-energy-efficiency-data-framework-need-consumption-data-tables-2021>

¹⁷ Government conversion factors for company reporting of greenhouse gas emissions. Department for Energy Security and Net Zero and Department for Business Energy & Industrial Strategy. [Greenhouse gas reporting: conversion factors 2022: https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting](https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting)

Metric and unit of reporting	Definition	Scope and exclusions	Method	Source of Information
Energy & Environment lending balances (£m) ¹⁸	Business related lending to projects or companies who are advancing energy & environmental causes in the UK.	<p>Specific loans or customers within our Business portfolio.</p> <p>Loans are identified for inclusion in one of 4 ways:</p> <ol style="list-style-type: none"> 1. The customer is assigned an eligible sector code¹⁹ in alignment with the LMA Green Loan Principles; or 2. The facilities are managed by the dedicated Energy & Environment team whose purpose is to facilitate the energy transition through Project Finance; or 3. All loans within the Agri E Fund²⁰; or 4. Have been identified by the Relationship Manager or Business Performance team as a customer who aligns to the LMA Green Loan Principles, but not assigned an eligible sector code, per item 1 above. <p>All Energy & Environment lending align to Loan Market Association (LMA) Green Loan Principles²¹.</p> <p>This includes but is not limited to initiatives such as wind farms, solar energy, hydro-electric energy as well as known customers where we've provided cleaner energy financing.</p> <p>We do not currently include the 'Green Buildings' category in this metric.</p>	<p>Loans are identified in the business banking source system (used for all business lending reporting) based on the criteria:</p> <ol style="list-style-type: none"> 1. An eligible sector code¹⁹ 2. A system marker for the Energy & Environment team 3. A product identifier for the Agri E Fund²⁰ 4. Relationship manager/ Business Performance team identifies the specific customer. <p>All loans included within Energy & Environment lending over £1m are independently reviewed against the Green Loan Principles to confirm their appropriateness for inclusion.</p> <p>The drawn balances at the reporting date, as opposed to funds advanced in the period, are included in Energy and Environment Fund. This is not a cumulative total, and repayment or amortisation of debt will impact the balance disclosed.</p> <p>For all criteria, except Agri E Fund, the full customer loan balance is included. For Agri E Fund only the eligible loan is included.</p>	<p>Spot balances are taken from the business banking source system. This data set includes, in addition to the spot balance, the sector codes, a product identifier (for Agri E Fund) and identification of Energy & Environment team lending.</p> <p>This data set is used for all external reporting by the Group, and fully reconciled to the financial systems.</p>

¹⁸ Spot lending balances as at 30 September 2023

¹⁹ Eligible sector codes have been selected based on alignment to advancing energy and environmental purposes in the UK and include: Electricity Distribution, Electricity Generation, Environmental Consultancy Service, Hydro-electric power generation, Product and distribution – other forms of energy, Renewable Energy and Wind Farm. Sector codes are assigned at loan origination and reviewed annually as part of the credit process.

²⁰ Agri E Fund eligibility is determined by (1) Completion of a carbon audit, (2) lending over £50k, and (3) loan purpose alignment to LMA Green Loan Principles (i.e. investment in emission reducing initiatives, like renewable energy, energy efficiency initiatives or activities that reduce greenhouse gases). This is monitored on a loan-by-loan basis with approval signed off by the regional agriculture head

²¹ LMA Green Loan Principles were published in February 2023 and can be sourced via the LMA's website at [Documents \(lma.eu.com\)](https://www.lma.eu.com), under Sustainable Finance