

Sensitive Sector Statement

Sensitive Sectors

Building a Brighter Future and **Straight up ESG** are two big goals of our Sustainability strategy. That means taking advantage of the longer-term opportunities of sustainability, while mitigating the imminent risks from climate change and social inequality.

ESG underpins all our credit policies and our entire business as we move to a low carbon economy. The purpose of this Statement is to make it clear who we lend to, and how we see potential clients 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 extra 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're 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 we've got a long and rich history in and high relative market share.

Partly down to our own ESG-oriented approach, hardly any of our customers and clients operate in **sensitive sectors** (see below for detail on specific sectors).

We'll keep reviewing 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 everyone happier about money**.

We control our credit risk by limiting the amount of risk we take on 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 they're reviewed and approved annually by our 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 of and risk from climate change, together with other environmental and social risk

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considerations, are factors we need to consider when assessing the credit risk of our customers. This is key to our **Credit Risk Policy Statement** and is reviewed annually by the Board Risk Committee.

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'll do everything we can to support our customers.

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 and reviewed annually by the Credit Risk Committee.

When we're 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. These impacts and risks aren't usually a material issue for the majority of our business lending loan book, which is almost entirely made up of small to medium-sized businesses 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. In particular, our assessments always:

- Identify relevant legislation and/or regulatory requirements that might affect a customer's business activities.
- Assess the procedures and policies a customer uses to identify and manage any environmental and social risks **they might face**.
- Identify sites where the customer might be subject to environmental licensing or regulatory requirements. Plus, we look at their current or historical activity which might 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 our reputation.

We expect all our customers to comply with applicable conventions, sanctions and embargoes, legislation, and licensing requirements.

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

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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.

This means that the Bank does not 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 involved in the manufacture or sale of weapons which are subject to a treaty or convention signed by the UK Government (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 are permitted to operate in this sector.

The Bank will lend to businesses that manufacture or sell firearms for sporting use, or for personal ownership is permitted, 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 does not lend to carbon-intensive manufacturing industries, or chemical manufacturing-associated processes, unless enhanced diligence checks have been carried out. These include checks of all relevant licensing, a satisfactory carbon transition plan, and an environmental impact analysis.

Power generation

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

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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.

We do not lend to businesses involved in the wholesale trading of precious metals and minerals including gold, silver, platinum, diamonds, emeralds, and rubies.

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 fracking).

Tobacco

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

Future developments

The Bank has a continuing and evolving programme of activity to support its ESG strategy and commitments.

This includes:

- Developing our disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Promoting the Virgin Money Sustainable Business Coach app. This tool allows businesses to measure their progress against UN Sustainability Development Goals. It also identifies actions businesses can take to improve their sustainability.
- Continuing to deliver training for our Relationship and Credit Managers. This will assist them in making informed analysis, as well as in their conversations with customers and clients.

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