Sustainability Report

At Close Brothers, behaving responsibly is integral to our actions and decision-making and this is reflected across our sustainability objectives we set ourselves.

Our Sustainability Objectives
We are known for our core strengths of a trusted client approach, disciplined lending and adaptability. These position us well to support our customers as they navigate a changing world. We have demonstrated we take our responsibilities to our employees and our community seriously, acting ethically and responsibly.

This is reflected in our sustainability objectives we have set as a business:

- Supporting our customers, clients and partners in the transition towards more sustainable practices
- Promoting an inclusive culture in everything we do
- Reducing our impact on the environment and responding to the threats and opportunities of climate change
- Promoting financial inclusion, helping borrowers that might be overlooked by larger finance providers and enabling savers and investors to access financial markets and advice to plan for their future

In the following pages, we provide updates on our progress this year across all aspects of our ESG strategy. New for this year's annual report, and following the TCFD requirements, we demonstrate the significant progress we have made in developing our climate strategy, covering not just our operational impacts, but understanding the implications across our financed activities and evaluating the important role we will play in supporting businesses and individuals to transition to a low carbon economy.

During the year we have maintained a strong focus on progressing with our wide-ranging sustainability agenda, driving forward with programmes and initiatives that address key priorities such as inclusion, social mobility, supporting customer needs and responding to the impacts of climate change.

“We are committed to supporting the transition to a low-carbon economy and will continue to work with all of our stakeholders on the journey to a net zero future.”

Adrian Sainsbury, Chief Executive

Sustainability Report continued

Our Sustainability Pillars

Environment

Reducing our impact on the environment and tackling climate change

Our Targets

- Becoming operationally net zero by 2030 through our scope 1 and 2 emissions
- Achieve a net zero company car fleet by 2025
- To align all operational and attributable emissions from our lending and investment portfolios with pathways to net zero by 2050
- Aim to provide over £1.0 billion of lending for zero emission battery electric vehicles over the next 5 years

Our Progress

- 44.8% reduction in scope 1 and 2 emissions since 2019 (market based)
- A further reduction of 43% in average fleet vehicle CO_2 emissions vs 2021 financial year
- Completed initial assessment across all categories of scope 3 emissions including assessment of financed emissions in our loan book
- Published our inaugural TCFD report
- Became a signatory to the Net Zero Banking Alliance
- 35% of new cars financed in the last financial year were battery electric

Alignment to SDGs[1]

7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 12 Responsible consumption and production; 13 Climate action

For our TCFD report
See pages 42-57

Society

Ensuring we are a diverse and inclusive employer. Serving the needs of our customers

Our Targets

- 36% female senior managers by 2025
- 14% of our managers to be from an ethnic minority background by 2025
- Aim to maintain or improve customer satisfaction scores across our businesses

Our Progress

- 33% female senior managers at 31 July 2022
- 10% of our managers were from an ethnic minority background at 31 July 2022
- Customer satisfaction scores
  - Property finance NPS +87
  - Asset finance CSAT +88
  - Savings online CSAT +86

Alignment to SDGs[1]

4 Quality education; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities

For our people
See pages 36-38

Social responsibility
See pages 38-39

Helping our customers
See pages 39-41

Governance

Setting high standards of corporate governance to ethically and transparently achieve long-term success for stakeholders

Our Targets

- Maintain high standards of governance, with appropriate board level oversight
- Aim to maintain or improve our external ESG ratings

Our Progress

- 50% of board members were female at 31 July 2022
- CBAM became a signatory of the UK Stewardship Code
- Received strong ratings of B- from CDP, AAA from MSCI and CIS-1 ESG Credit Impact Score from Moody's

Climate risk governance
See pages 50-52

Corporate governance
See pages 99-112

1 We have identified above specific United Nations Sustainable Development Goals ("SDGs") which align with aspects of our sustainability strategy detailed in our report following.

Our people

Valuing Our Colleagues

Creating an inclusive culture where all colleagues are supported to thrive is fundamental to the continued success of our business. We value the expertise of our people in delivering excellent service and building long-lasting relationships with our customers, clients and partners based on trust and integrity.

We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background. We want our colleagues to feel as though Close Brothers is a great place to work and are proud that 94% of colleagues feel included and 93% feel they can be themselves at work.

We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes and social enterprises, including the Race at Work Charter, the Social Mobility Pledge, the Women in Finance Charter and the Valuable 500. We partner with leading diversity organisations, including Stonewall and the Business Disability Forum, to help inform our thinking and subsequent actions. We continue to run inclusive leadership training sessions for our managers, senior managers and group executives, highlighting how actions and behaviours can shape our inclusive culture.

All hiring managers are required to complete a collection of training modules developed to provide a consistent and best practice approach for talent acquisition. They ensure a focus on inclusion and unconscious bias and equip line managers with the skills and knowledge to make effective and fair recruitment decisions.

We are also committed to inclusive recruitment practices; using gender decoders to avoid the use of gender bias wording in adverts and job descriptions, and seeking balanced shortlists and diverse interview panels to alleviate bias in the process. We strive to achieve a 50:50 gender split for our entry level and formal training programmes including our Aspire school leaver programme, our graduate schemes and our summer internships.

This year, we have established new employee networks for Accessibility, Social Mobility, and Working Parents and Carers. We now have networks focused on each of our diversity and inclusion pillars. Each are chaired by an executive sponsor and take responsibility for driving our inclusion initiatives across the organisation.

Employee Engagement

Listening to the views of our colleagues remains key to retaining a highly engaged workforce; ensuring our culture is one where our colleagues feel motivated, proud to work for us and can thrive.

Our latest Employee Opinion Survey closed in March 2022.

We retained high levels of engagement at 86%, which is close to pre-pandemic levels. Our response rate also remained strong at 86%, enabling us to draw meaningful insight from our results. Our scores remained broadly aligned to last year, retaining many high scores from our 2021 survey, particularly around teamwork, expertise, acting with integrity and treating customers and clients fairly. Our organisational culture was shown to be particularly strong when compared to other financial services firms with high scoring questions against the Financial Services Culture Board benchmarks. Feedback showed a strong sense of belonging with 94% of colleagues feeling included and that they are treated with respect.

Racial Equality

As signatories to the Race at Work Charter, we demonstrate our commitment to their seven key actions to help improve representation of ethnic minorities across all levels of the organisation. As part of this commitment, we continue to monitor ethnicity disclosure levels. Our disclosure has increased from 75% at the end of the 2021 financial year to 83% at 31 July 2022, which allows us to more accurately measure our ethnic balance to inform our thinking and future actions.

Our target to have at least 14% of our managers to identify from an ethnic minority background by 2025, forms part of our Long-Term Incentive Plan objectives and demonstrates our commitment towards improving representation of all colleagues with an ethnic minority background.

This year we extended our partnership with the 10,000 Black Interns programme to provide 6-week paid internships to 30 students across the group. This programme provides greater opportunities for us to support the career progression of our ethnically diverse colleagues. The board continues to support the recommendations of the Parker Review and the composition of the board is in line with the advice to have at least one director of colour. The board will continue to take opportunities to further strengthen the diversity of backgrounds and experience among its directors as part of future board-level recruitment searches.

Our Ethnic Diversity employee network, sponsored by our chief credit risk officer, has established itself with core strategic aims to create a safe space for colleagues from ethnic minority groups to share personal experiences and seek counsel. The network has been a key driver in promoting a multitude of key celebrations whilst also raising awareness through speaker events available to all colleagues. The work they continue to drive complements and supports our overall Diversity and Inclusion agenda.

Gender Diversity

At Close Brothers, we are passionate about creating an environment where all our colleagues feel they belong and can thrive. As part of our commitment to building an inclusive culture, we remain focused on reducing our gender pay gap. The gender pay gap shows the difference in average pay between women and men, which is an important differentiation to pay equality. We remain confident that women and men are paid equally for performing equivalent roles across our business. Reducing our gender pay gap is one way in which we review our progress on improving gender balance across our organisation.

Our 2022 gender pay gap report shows our mean group-wide gender pay gap was 38.7% at 5 April 2021. At Close Brothers, the gap is mainly driven by a higher proportion of male incumbents in both senior and front office roles, and a higher number of females who work part-time. We are committed to improving gender balance across all levels of the organisation and have a number of initiatives in place to support this.

Further details of our gender pay gap can be found on our website.

At Close Brothers, we recognise that gender identity is broader than male and female and we want to affirm that we welcome colleagues of all gender identities. In recognition of this, one of the steps we have taken this year is to update our family-friendly policies to ensure they use gender neutral language and are inclusive for all.

As signatories of the Women in Finance Charter, we remain confident that we are on track to achieve 36% of senior manager roles being held by a female by 2025. At the end of the financial year 50% of our board members were female, exceeding the government's target of 33%, and we remain broadly in line with FTSE Women Leaders gender targets for executives and their direct reports.

Our gender balance network, sponsored by our Winterflood chief executive officer, continues to thrive. This year, the network has successfully:
- hosted a number of events including speed networking, providing colleagues with the opportunity to speak with senior members of the firm
- run events focusing on topics of interest such as parental leave and imposter syndrome
- launched a quarterly newsletter to spotlight the career paths of women within the firm, and
- continued to look for opportunities to engage with colleagues to progress our gender balance initiatives.

> "Ensuring we are a diverse and inclusive employer."

Female senior managers:[1]

33%

as at 31 July 2022

Future target:

36%

by 2025

94%

of our employees feel included by their colleagues.

93%

of colleagues feel they can be themselves at work.

1 Senior managers are defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams.

Sustainability Report continued

We also have a number of external partnerships in place to support and promote diversity and gender balance at all levels of the organisation. We continue to partner with the 30% Club through which we provide cross-business mentoring, as part of Gender Equity, for our talented females. Almost half of mentees who have participated in the scheme over the years have had a promotion, secondment or internal move.

We are proud to have co-sponsored the latest UK Automotive 30% Club's "Inspiring Automotive Women Awards" and are delighted that one of our colleagues in our Motor Finance business was declared a winner.

Gender Diversity

	31 July 2022	
	Male	Female
Number of board directors[1]	6	6
Number of directors of subsidiaries[2]	48	7
Number of senior managers, other than board directors[3]	192	107
Number of employees, other than board directors and senior employees	1,934	1,590
	2,180	**1,710**

1 Includes non-executive directors, excluded from group headcount calculations.
2 Includes subsidiary directors who are excluded from group headcount calculations.
3 Senior managers defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams. This figure excludes 42 male and eight female employees who are reported under directors or subsidiary directors.

Our workforce remains diverse, with 44% female employees, and we have a broad age range of employees, with 22% of our employees being under 30 years old and 20% over 50.

Developing Our People

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction and technical training to management, leadership and talent development programmes. We promote a range of mentoring schemes and opportunities to broaden external networks as well as sponsoring qualifications to further support professional development.

All staff continue to have access to our learning portal offering a wide variety of practical tools and e-learning on a number of topics. The average number of training hours across the group was 13 per employee during the year. We require all employees to complete relevant regulatory training on an annual basis with further training offered when required. This year, we maintained a 100% completion rate of mandatory training by the last working day of the financial year.

We continue to support our talent through mentoring programmes including the cross-company schemes Mission Include (supporting those who identify as being from an ethnic minority background) and Gender Equity (with a focus on supporting females in progressing to senior roles). To support inclusivity, we opened up application processes for these schemes, and this year, we were awarded "most dynamic organisation of the year" for the Mission Include programme.

We run several tailored junior training programmes across the business which are aimed at growing high-potential individuals to progress into senior roles. Similar to our mentoring schemes, these programmes are open to everyone by means of an application process to promote inclusivity at all levels. Our Sales Academy programme within our commercial business has resulted in nine colleagues graduating this year and commencing Area Sales Manager roles across the business.

To support our high potential colleagues, we have launched our emerging leaders programme with 20 individuals across the group taking part. We continue to support our entry level programmes through our school leaver programme, Aspire, where we have three new students joining us in September 2022. In addition, we have hired a new graduate scheme cohort for the 2023 financial year with 22 graduates ready to fulfil roles across the firm.

To support our inclusive culture through further embedding our code of conduct, we continue to ensure all our new starters receive our "Close Brothers Way" e-learning module, focusing on our cultural attributes and expected behaviours. We have also worked with members of our employee inclusion networks to update the content for all colleagues to receive in January 2023.

Supporting Our People

This year, we have focused on supporting colleagues as many embarked on new ways of working after the pandemic. As part of this, we have partnered with our UK benefits provider BUPA to run 16 virtual workshops for colleagues on a number of wellbeing topics including managing stress and uncertainty and work-life balance. All colleagues are offered company-funded private healthcare with high take-up rates across the group. As part of the UK offering, BUPA provides a wealth of health and wellbeing support as well as dedicated mental health support.

Maintaining the positive mental wellbeing of our colleagues is of great importance to us and we now have over 50 trained Mental Health First Aiders across the group as well as an employee assistance programme offering a range of confidential support. Our recent Employee Opinion Survey results showed 89% of colleagues feel Close Brothers is genuinely concerned for the wellbeing of employees, which is above the external benchmark.

It is important to us that we reward our staff fairly and openly, and we therefore strive to ensure that clear and transparent objectives link directly to remuneration across the group.

We are confident that our enhanced benefit package remains fit for purpose and satisfies the expectations of our colleagues.

The group continues to pay all staff at or above the national living wage.

We offer both a Save As You Earn scheme as well as a Buy As You Earn share incentive plan, which allows employees to acquire shares on a monthly basis out of pre-tax earnings. Participation rates in our long-term ownership schemes remain strong at 47% of eligible employees.

For members of the group's pension plans, we contribute between 6%-10% towards colleagues' pensions, which is above required levels.

Supporting Social Mobility

We are proud to be an inclusive organisation that supports social mobility and creates equal opportunities for all, regardless of background. Social mobility is one of our inclusion pillars, with our working group recently transitioned to become a new employee network with executive sponsorship from our commercial chief executive officer.

We continue our partnership with upReach, a charity committed to transforming social mobility. This year's summer internship programme offered six-week placements for six university students from lower socioeconomic backgrounds. The proven success of these internships has supported us to broaden our talent pool for entry level roles, with some interns successfully obtaining permanent roles within the firm.

To extend our commitment to social mobility, we offer a number of mentoring opportunities to our current colleagues. We partner with "The Girl's Network" through supporting mentoring to inspire and empower girls from lower socioeconomic backgrounds to identify with female role models. In addition, through our partnership with upReach, we support 10 individuals to volunteer and train to become mentors each year.

Our Employees in the Community

We are committed to creating a positive impact in our communities and recognise that employee volunteers are often the driving force behind many community and charity activities.

As part of the relationships we have with our charity partners, we look to encourage employee engagement through involvement in volunteering initiatives. For every hour of voluntary time, we donate £8 directly to the charity under our Matched Giving Scheme, and we also encourage people to take advantage of one paid volunteering day each year through our Employee Volunteering Policy.

Volunteering has been a key part of our newer charity relationships. Teams from across Close Brothers have donated their time to Smart Works to take part in corporate wardrobe days, helping marginalised women build their confidence and find employment. A group of colleagues also provided close support to Stop Hate UK to improve their marketing and strategic operations activities, enabling them to reach out to help more communities affected by hate crime.

We continue to partner closely with the children's literacy charity Bookmark. This academic year, Close Brothers' volunteers have delivered over 300 one-to-one reading sessions to children. This is the equivalent of five weeks of back-to-back reading support during school hours which has never been achieved by another Bookmark corporate partner. In addition, teams have given their time to build school libraries and help with the charity's work to support Ukrainian child refugees.

We are supportive of our colleagues giving their time and expertise to fulfil trustee roles for various charities. In return, employees gain board-level experience to support their personal development and career progression.

Charitable Activities

Our two main corporate charity partners are chosen by our colleagues as part of our employee opinion survey and these remain Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, which we have now supported for ten consecutive years. To date, we are proud to have raised over £550,000 for Cancer Research UK and we are repeatedly nominated for Corporate Fundraising Team of the Year by the charity. Over the last three years, we have raised £176,000 for Make-A-Wish Foundation, enabling them to grant 71 wishes.

This year, a group of colleagues successfully took part in Make-A-Wish's first ever wish challenge volunteering day which resulted in a wish being granted for a critically ill little boy. Close Brothers' support and feedback has helped develop this challenge into a successful team building exercise which is now delivered globally by Make-A-Wish.

We have a dedicated committee for charitable and community activities chaired by our group head of human resources and supported by employees from across the group. This committee meets regularly to discuss and propose new initiatives with input from our control functions when required. We also have several local committees which plan and run initiatives to raise funds for local charities.

We match 50% of funds that our colleagues raise for charities under the Close Brothers Matched Giving Scheme. We also encourage our employees to collaborate on raising money for causes that are most meaningful to them by matching funds raised through locally organised fundraising events and activities.

This year, we have expanded the reach of our charitable giving to donate a total of £150,000 to support three additional charities that align with our ESG goals.

Our donations:
- helped Stop Hate UK establish a new helpline based in the London borough of Merton
- are helping support The Wildlife Trusts with their vital work in restoring and protecting nature
- are supporting Smart Works to help more women get back into employment

To further our relationship with Bookmark, we made a donation of £40,000 this year, which accompanies the significant contribution our employees make to the charity through volunteering. In response to the crisis in Ukraine, we have donated £50,000 to date. This includes a donation to the Refugees at Home charity and matching 100% colleague donations to the British Red Cross in support of their Ukraine Crisis Appeal.

Our Payroll Giving Scheme matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. Approximately 12% of employees across the group were signed up to Payroll Giving at 31 July 2022, achieving us a twelfth consecutive year of the Payroll Giving Quality Mark Gold Award and ensuring that we have met our target of maintaining this standard.

Helping our customers thrive

There have been multiple factors contributing to the current environment of changing customer, partner and client needs. Considerations include the acceleration of the use of digital channels coming out of the pandemic, as well as rising inflation and cost of living. At Close Brothers, being there for our customers, clients and partners and lending through the cycle remain an important part of our business model.

Furthermore, to continue supporting customers, clients, and partners we believe in maintaining high standards of service, delivering specialist expertise and building long-lasting relationships. These priorities continue to guide the end-to-end experience we aim to consistently deliver to customers whilst also ensuring we continue to adapt as needed to meet emerging needs against a backdrop of a constantly changing environment.

Supporting our Vulnerable Customers

In continuing to refine and deliver the desired experience for different customer groups, we have also made various vulnerable customer experience journey improvements. Motor Finance conducted research into vulnerable customers generating insight which assisted the creation of an appropriate governance model across Retail to ensure improvement in identification, oversight and outcome monitoring. Conduct risk dashboards are being developed for each of the businesses to track and measure vulnerability and the various outcomes customers receive. Finally, many of our businesses use their customer forums and executive committees to monitor, discuss and refine their approaches towards vulnerable customers. We proactively identify vulnerability and provide necessary support, tailoring our service and customer journey to vulnerable customer needs.

In the Retail business, for example, we work with one of our partners to provide additional support to vulnerable customers in the management of collections, recoveries and arrears whilst ensuring Close Brothers retains robust governance, control and management oversight including dealing with more challenging and complex vulnerable customer cases.

We are focused on continuing to support vulnerable customers. Most recently, we established a group-wide vulnerable customer working group to share best practice and improve the consistency of delivery across the group. Furthermore, we are in the process of undertaking a maturity assessment across key vulnerability capabilities to identify further opportunities to evolve our approach to meet customers' emerging needs as the operating environment changes.

Leading Through Purpose

Our purpose of helping the people and businesses of Britain thrive over the long-term is a fundamental commitment to our customers that we will be there for them in both the good times and the bad. Our purpose is underpinned by our group-wide customer principles, which guide how we deliver the end-to-end experience to our customers, clients and partners throughout their journey with Close Brothers and also helps us measure how effectively we are performing across the key principles. (You can read more about our delivery against these principles on page 36).

Sustainability Report continued

Our Customer Principles - Success Stories

Our customer principles serve as a strong reflection of the experience we strive to deliver. Here are some examples of how we have delivered value to our customers, clients and partners in the past year:

We do the right thing for customers, clients and partners

The pandemic accelerated an industry paradigm shift with the focus on short-term commitment, self-service and pay for use. Brewery Rentals responded with a new product (EKegPlus) which is a short-term rental product using technology to track assets and provide a daily hire charging model. The team automated the repetitive backend processes, freeing up internal resource to focus on customer experience. The product is designed to partner with customers to provide low-level commitment from the customer. The results are that there is clarity and transparency as fees are highlighted early on for customers to make informed decisions. Customers are in control of their own cost to serve with the ability to reduce fees by doing more themselves.

We are flexible, responsive and execute with speed

It is critical to remain abreast with customer, client and partner needs. In Premium Finance, we utilised a regulatory requirement change to improve compliance and enhance our customer journey by providing a new channel for customers to make arrears payments. The team implemented the ability for customers to make arrears payments using a QR code in customer communication for ease and speed, taking them through to a secure platform. The result was an optimised journey and a reduction in arrears calls. The solution aids the ecosystem as the support is also available to our broker partners as they can share the link directly with their customer to make a payment. The solution is scalable and may be deployed in other business lines.

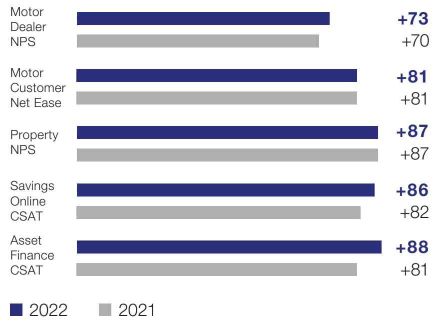
We make decisions informed by our specialist expertise

To remain constantly aware of how we can continue to help our customers and partners thrive in an ever-evolving landscape and to identify areas of improvement, we rely on our Voice of Customer programme to provide actionable insights across the group. The Invoice Finance business has been working hard to ensure we are capturing feedback from customers and acting upon it, with valuable improvement delivered as a result, including platform migration to a better tolling system for customers, communication to customers to remind them about cybercrime and what to look out for and optimised call routing so customers can get through for support easier and quicker.

We build relationships based on quality and trust

Solid and lasting relationships are of utmost importance to us at Close Brothers. In Property Finance the focus has been on retaining great existing relationships whilst looking to build new ones. The team has been driving events in person to bring together skills to host and foster conversations for the next generation developer. Attendees of the events are provided with practical advice from industry experts, start to build a relationship with a market leading property finance specialist and join a network of long-standing clients and professionals who will share their challenges and experience with the next generation of developers.

Customer Satisfaction Scores



Note: All scores as at June each year.

Listening to Our Customers and Improving Experience

We collect a broad range of customer metrics that we use to help inform day-to-day changes as well as longer-term strategic decisions to improve customer experience. We listen, analyse and act on customer insight and strive to improve our ability to meet customer needs. We are refining our customer operating framework to provide better experience visibility as well as improved governance of the end-to-end customer journey with clear accountability and ownership of different journey stages. We consistently apply our journey model of the 5E framework (Entice, Enter, Engage, Extend and End) to understand the key experience stages with Close Brothers across our various business and customer, client and partner groups. It is important that we constantly walk in the shoes of our customers and make the voice of our customers visible to colleagues to prioritise experience improvements and to engage with customers in line with their preferences. We have created journey dashboards in the Banking division which reflect journey and experience performance. We measure holistic brand metrics as well as specific journey stage metrics, including sentiment, operational and insight data.

We continue to achieve strong hero metric performance and our scores perform well against available external benchmarks. This evidences the strength of our relationships and the faith our customers place in us as their provider of choice.

Looking Ahead

We continue to evolve our customer capability and conducted a customer experience maturity assessment across our businesses in the spring to calibrate and benchmark against external best practice. From this, we have identified some key opportunities to further accelerate and embed customer centricity which builds on existing programmes in the business.

We are in the process of adding customer specific objectives to journey stage owners' KPIs with tailored objectives and explicit clarity on what behaviours need to be demonstrated to deliver on our customer, client and partner ambition.

Engaging Our Suppliers

We engage with our most important suppliers on a regular basis to ensure that both parties are attaining optimum value from the relationship. Our annual survey of key suppliers who represent our most critical and strategic services was last conducted in July 2022 and remains anonymous to ensure we gather honest and candid feedback.

Similar to previous years, the 2022 survey focused upon how Close Brothers performs as a client and how our suppliers feel about doing business with us. Overall, feedback remains positive throughout and we are seeing further improvements across key areas following action undertaken as a result of the 2021 survey.

We were pleased that the majority of our suppliers would continue to recommend us as a client, scoring 8 out of 10 for this measure.

Previous results indicated suppliers wanted greater transparency of our strategy and priorities. Having enhanced our engagement with suppliers on this topic, we are pleased to see in this year's survey that responses received indicate improved transparency on growing collaboration to reach shared goals. As such 77% of suppliers feel positive about how we treat them as a valued partner and rate this good or excellent, an improvement from 71% in 2021.

We have also seen a continued improvement in how our suppliers rate our approach to transparency and fairness, with 83% rating it as good or excellent compared to 78% in 2021. Suppliers continue to rate us on average at 7.6 out of 10 for ease of doing business with us.

We also engage our suppliers on their approach to sustainability, covering suppliers' environmental and social governance, to help better inform our views of the progress each party is making towards improvements. We use the output of this to inform our internal strategy and specific initiatives to further contribute to the sustainability agenda. Some examples are:

Gaining greater transparency of our scope 3 emissions and identify targeted areas of focus. Collaborating with our facilities partner to closely analyse data across our national portfolio, report accurately and monitor against specific sustainability KPIs.

Working closely with Lex Autolease and car manufacturers on a Road to Zero transmission initiative by 2025 in relation to our company car fleet.

We recognise that our suppliers form a key part of the service we provide and are committed to treating them fairly. We are therefore pleased to have maintained our Corporate Certification for Ethical Procurement from the Chartered Institute of Procurement and Supply ("CIPS").

Our policies

We are committed to acting responsibly throughout all our activities, and have a number of group-wide policies and regulations in place to ensure we continue to operate in a socially responsible and compliant manner, including:

Dignity at Work Policy

Our Dignity at Work Policy outlines the type of behaviour that the company considers to be unacceptable and explains what solutions there are if any employee has experienced or believes someone else has experienced any discrimination, harassment or bullying at work.

We ensure equal opportunities for all, including having a commitment as part of our Dignity at Work Policy to ensure no employee is subject to discrimination. This applies to all work contexts, as well as all employee lifecycle events, for example in recruitment, training, promotion and flexible working requests.

As part of our Dignity at Work Policy, our colleagues with disabilities are encouraged to share their condition with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support the hiring, retention, training, career development and promotion of employees with disabilities.

Whistleblowing Policy

We provide a simple, transparent and secure environment for our employees, shareholders and other stakeholders to raise concerns about any potential wrongdoing within the company.

We encourage our employees to report any activity that may constitute a violation of laws, regulations or internal policy, and reporting channels are provided to staff for this purpose within the framework of a Whistleblowing Policy.

Employee Health and Safety Policy

Our Health and Safety Policy demonstrates our commitment to ensuring our employees and visitors are safe and sets the framework for our safety culture. We continue to provide a safe and healthy working environment for our employees and visitors in accordance with The Management of Health and Safety at Work Regulations 1999.

The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the ongoing progress in successfully raising the profile of health and safety across the business. This year we recorded 83 incidents across all of our sites. Of these, nine were reportable and all arising from Covid-19 within the workplace reportable requirements. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme.

Privacy Policy

Our Privacy Policy codifies our approach to protecting personal information, in line with the General Data Protection Regulation and UK Data Protection Act 2018. It sets out our core principles for what personal information we collect and process, and the controls to which the data is subject through its lifecycle.

We have a nominated Data Protection Officer who is accountable for the firm's approach to privacy management, a Chief Information Security Officer accountable for our approach to cyber security, and a broader operating model in which the privacy and security requirements are embedded in operations throughout the organisation.

Financial Crime Policy

Our policies and standards are intended to prevent the group, employees, clients and any other associations or representatives from being used for the purposes of financial crime, including, but not limited to, money laundering, terrorist financing, facilitation of tax evasion and circumvention of financial sanctions.

We are committed to carrying out business fairly, honestly and openly, operating a zero-tolerance approach to bribery and corruption. We are dedicated to ensuring full compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Human Rights and Modern Slavery Act

The board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998. We are aware of our responsibilities and obligations under the Modern Slavery Act, with the appropriate policies and training in place to enable compliance across the organisation.

The Banking division has also committed to the CIPS Ethical Code of Conduct, which supports our commitment to preventing modern slavery from existing within our supply chain. Further details of our compliance with the Modern Slavery Act can be found on our group website.

Tax Strategy

We are committed to complying with our tax obligations and doing so in a manner consistent with the spirit as well as the letter of tax laws. This includes a transparent and cooperative relationship with the tax authorities. Our tax obligations arise mainly in the UK where our operations and customers are predominantly based. Our straightforward business model reduces the complexity of our tax affairs and helps us maintain a lower risk tax profile. Further details of our approach to tax can be found on our website.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

"The effects of climate change are already evident. Financial institutions such as Close Brothers need to play their part. In this, our first TCFD report, we have outlined our current approach, considering both risks and opportunities, with our disclosures aligned to TCFD recommendations."

Robert Sack, Group Chief Risk Officer

Introduction
Welcome to our inaugural Task Force on Climate-related Financial Disclosures ("TCFD") report. We recognise the importance of addressing the threat of climate change and are pleased to present our progress in addressing climate-related risks and opportunities.

We take our responsibility towards the environment seriously and are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050. We are conscious that the emissions impact of the assets and sectors that we finance can contribute to climate change, and as a financial services provider we recognise the role we have to play in supporting the transition to a more sustainable future. This includes supporting our customers and partners with their own transition journeys. Our efforts to reduce the impact of our operations on the environment continue at pace, and we strive to take actions that make a positive contribution to the world around us.

Careful consideration of environmental factors and potential risks now plays an integral role in the actions we take, alongside thoughtful evaluation of where opportunities may arise for us to make a meaningful difference through our business decisions.

Progress to Date
We believe in enhanced climate disclosure in line with TCFD recommendations and support the organisation's aims of market transparency and stability. We are committed to providing transparent disclosures that help our stakeholders understand the progress we are making in managing our climate-related risks and opportunities, and support them in their efforts to do the same.

In this, our initial TCFD report, we have highlighted our progress, as well as areas of future focus, with regard to the integration of climate risk into our governance infrastructure, business strategy and risk management framework. To date we have made good progress embedding climate risk into our ways of working, ensuring we consider the impact of climate change in the decisions we take. To support our efforts, we continue to build capabilities across the group. This has included the roll-out of climate risk training, updates to our governance approach, evolution of our risk management framework to improve our analytical capabilities, and undertaking our first climate risk long horizon scenario analysis exercise. Notwithstanding the efforts already made, we remain at the start of a long journey and recognise there is more to do to develop our own transition plans, targets and metrics. An important enabler for this will be our ability to address challenges around data and modelling. This represents a key focus area and we continue to work across industry and alongside our customers, to evolve both understanding and capabilities.

In preparing our TCFD disclosures, we have sought to provide sufficient granularity, proportionate to the materiality of the climate risks identified across the group. An extensive analysis of risks presented by climate change has been completed, identifying impacts across our risk universe. Analysis indicates we are not materially exposed to loss or disruption from climate-related considerations over the short to medium term. Over the longer term, increased risk has been identified, primarily driven by potential transitional impacts such as changes to regulation, technological change and the evolution of consumer preferences, and in respect of physical risk, we consider severe impacts are only likely to present in the long-term although we do recognise that acute physical events are already happening. These risks are largely mitigated through our resilient business model which benefits from a short average tenor of 17 months, a customer base that is predominantly UK and Republic of Ireland based with strategic management actions being executed to support our customers and strategic partners on their own transition pathways.

Our disclosures are consistent with the June 2017 report entitled Recommendations of the Task Force on Climate-related Financial Disclosures and we have also considered the additional guidance published in the 2017 and 2021 TCFD Annexes where practical to do so. The structure of the report that follows provides a summary of our alignment with the TCFD recommendations and the key focus areas within our plan to mature our climate risk framework. Further detail is provided on pages 44-57.

Climate-related Disclosures Overview

TCFD Recommendations	Our Progress	Future Focus
Governance Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.	• Board monitoring of climate-related risks and opportunities enabled through clear roles and responsibilities for the board and board committees. • Supported by increased regular management updates covering climate strategy, risk management capabilities and investment needs (i.e. to build skills, data and tooling). • ESG and climate-specific training delivered to board with climate-specific training rolled out to all group employees. • Group chief risk officer accountable under the Senior Managers and Certification Regime for identifying and managing the financial risks associated with climate change. • Executive and senior management teams/ committee structures support via collaboration, escalation and control oversight. • Climate Risk Steering Committee responsible for overseeing evolution of climate risk framework, supported by various subsidiary working groups covering credit risk, scenario analysis and disclosures.	• Board to oversee continued evolution of climate strategy and ambition, including underlying transition plan and supporting metrics and targets. • Continue to build knowledge at board and senior management level to support development of climate strategy and related risk appetite. • Further embed the climate risk framework and supporting operating models and processes to support management of both risks and opportunities. • Develop plans to address key challenges on data, models and tooling. • Continue to build climate awareness and competency across our staff and key stakeholders. • Continued enhancement of disclosures highlighting the breadth and depth of the climate governance framework including specific details on the frequency and topics monitored by committees.
Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term. Describe the impact of climate risks and opportunities on the organisation's business strategy and planning. Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2ºC or lower scenario.	• Initial climate-related risks and opportunities identified with management actions agreed for strategic focus areas. • Climate risks and opportunities considered within financial and strategic planning processes, using the firm's standard one to three-year time horizon. • Long-term horizon scenario analysis capabilities developed utilising the Network for Greening the Financial System ("NGFS")-aligned scenarios. • Signatory of Partnership for Carbon Accounting Financials ("PCAF") using methodologies to conduct first estimates of financed carbon emissions. • Identification of climate related lending growth opportunities have been developed including an initial five year ambition for funding battery electric vehicles.	• Further develop climate strategy and ambitions, including design of transition plan, decarbonisation actions and other risk and opportunity measurements. • Continue to enhance scenario data and modelling capabilities to enhance strategic and financial planning. • Continue to address key challenges related to the availability of granular customer data, including the use of customer outreach. • Respond to evolving regulatory requirements and developments in the broader industry, including the emergence of best practice.
Risk management Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	• Development of climate risk framework, and embedment within the group's Enterprise Risk Management Framework ("ERMF"). • Climate risk classified as a cross-cutting risk, impacting multiple principal risks. Also identified as an emerging risk • Identification and analysis across the group of the various risks presented by climate change, identifying impacts across various existing principal and key risks • Qualitative and, where practical, quantitative assessment of potential impacts of physical and transitional risks completed, including via inaugural long-term horizon scenario analysis • Initial credit risk sensitivity methodology implemented to support identification and monitoring of potential climate risk within our loan book. • Enhanced third party risk due diligence climate and ESG questionnaire deployed. • Potential impacts on customers, people and infrastructure considered through crisis management and business continuity planning exercises.	• Continue to integrate climate risk considerations within business processes to further mature risk management and decision-making. • Commence implementation of more sophisticated climate credit risk assessment methodology, including development of associated reporting and MI. • Progress multi-year programme of work to both improve data quality and analysis capabilities and further evolve risk appetite setting. • Continue to work with customers, key partners and suppliers to better understand potential impacts to their businesses. • Continue to be transparent within our disclosures on both our progress and the challenges we face. • Continue to mature climate stress testing and scenario analysis, including within existing ICAAP and operational risk processes.

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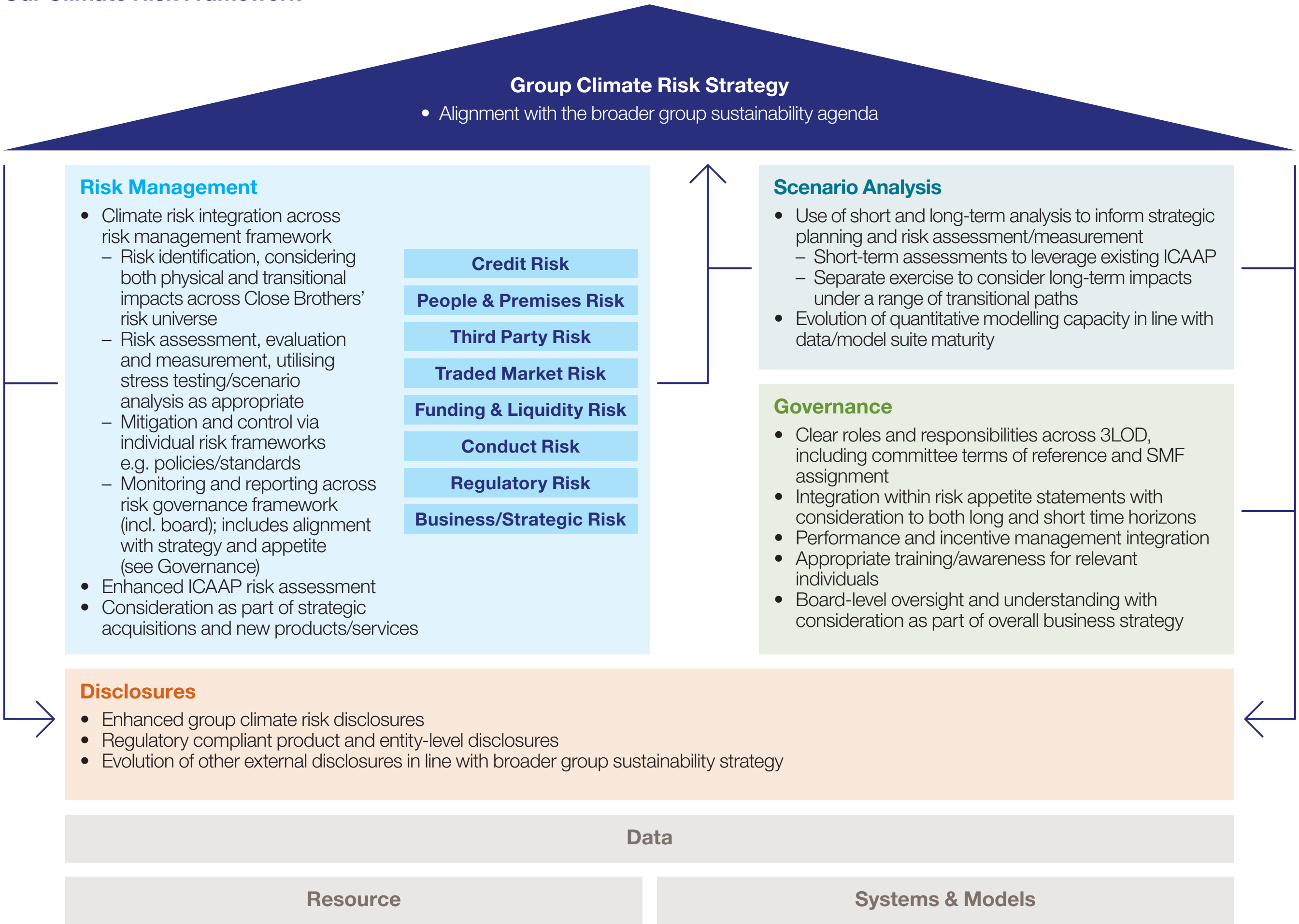
TCFD Recommendations	Our Progress	Future Focus
Metrics and targets Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process. Disclose Scope 1 and 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	• Continued progress to enhance our capabilities in relation to measuring our carbon footprint for our own operations including measurement across all Scope 3 operational emission categories. • Initial assessment of Scope 3 financed emissions (across our loan book) using PCAF methodologies. • Broadening of our climate strategy and targets to cover both net zero scope 1, 2 operational targets, as well as specific targets relating to our financed emissions. • An overarching commitment to net zero through our recent joining of the Net Zero Banking Alliance.	• Setting of interim 2030 targets across the most carbon intensive sectors within our portfolios. • Continue to enhance data quality across our portfolios to improve quality of financed emissions reporting, risk assessment and business strategy. • Set additional targets across our lending and investment activities (adding to our new battery electric vehicles ambition) and supporting our transition pathway plans.

Our Climate Risk Framework



Embedding Climate Risk: Risks and Opportunities

We have sought to address climate risk and opportunity management by integrating climate-related considerations into our core ways of working, ensuring appropriate consideration of potential impacts. In doing so, the group has developed a nascent Climate Risk Framework that aligns with our long-standing approach to enterprise risk management (as detailed above).

Governance

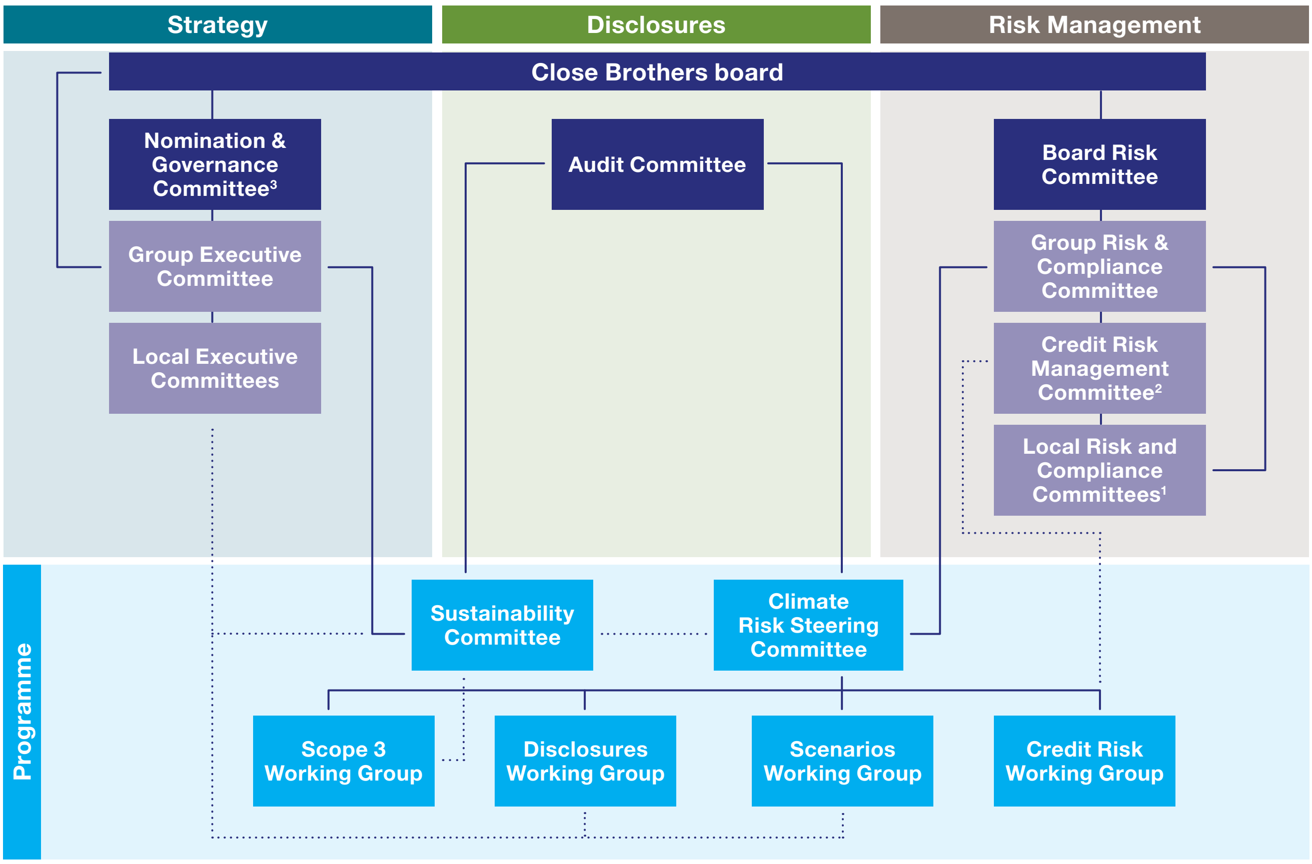
Integrating Climate Considerations into Our Governance and Decision-Making
Since 2020, the corporate governance framework has been subject to continuous review and refinement to ensure effective oversight of risk framework implementation and manage the interconnect with the firm's climate strategy.

Oversight of climate-related risks and opportunities has been supported by the establishment of clear roles and responsibilities, extending across board and executive committees, and the three lines of defence more generally. Integral to this has been the provision of regular framework status updates to appropriate committees and fora, the refinement of Terms of References and the integration of climate-related considerations within both the group's policy framework and new product approval process.

Enriched reporting and management information ("MI") are also now being provided to relevant committees, providing important insights that are in turn enabling climate considerations to be embedded within both strategic planning and the setting of group-level risk appetites. A link has also been established between the delivery of the firm's climate strategy and executive remuneration through the inclusion of climate/ESG objectives within both the executive committee's scorecard and Long-Term Incentive Plan.

Further details on the roles and responsibilities of both the board and management with regard to climate risk management are outlined from page 46.

ESG and Climate Committee Governance Framework



1 Operates on delegated GRCC authority, however credit risk climate reporting feeds into CRMC in first instance.
2 Operates on delegated GRCC authority, however feedback loop into programme governance via Credit Risk Working Group.
3 Oversight and monitoring only, decisioning via group board.

Key: Board Executive Programme Direct Indirect

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Board Oversight
Board
The board is responsible for the long-term success of the group and the delivery of sustainable value to its shareholders and wider stakeholders. It discharges some of its responsibilities directly and others through its subsidiary committees.

In ensuring the long-term sustainability of the group, the board is also responsible for the overall delivery of the firm's climate and ESG strategy. It reviews and approves the strategy and receives regular updates on its execution from relevant members of the executive team. The board is also responsible for approving the group's risk appetite statements, including risk appetites associated with climate risk.

Board Risk Committee
Operating on authority delegated by the board, the Board Risk Committee (the "BRC") oversees the management of risk across the group, including the risks presented by climate change.

The BRC provides oversight of the measures taken to manage climate risk and receives regular updates on the development and subsequent embedding of the firm's climate risk framework. This includes the ongoing review of emerging portfolio MI, monitoring the evolution of associated risk appetites and the consideration of climate-related risks and opportunities assessed through the completion of long-term scenario analysis exercises.

Audit Committee
Operating on authority delegated by the board, the audit committee oversees the management of financial and regulatory reporting across the group, as well as the firm's internal financial controls. The committee is responsible for ensuring the clarity and completeness of environmental and sustainability disclosures included within the group's annual report and accounts.

Nomination and Governance Committee
The Nomination and Governance Committee monitors environmental, social and governance ("ESG") and sustainability developments relevant to the group (including developments relating to climate change).

The role of management
The chief executive has ultimate responsibility for climate-related issues affecting the group and its customers and overall accountability to the board and shareholders for ensuring sustainable and responsible practices, including those associated with the environment. Accountability for the group's climate and ESG strategy similarly rests with the chief executive, albeit with various responsibilities delegated to members of the executive team as appropriate to ensure strategic delivery and embedment within ways of working.

Within the Banking division, and in line with expectations under the Senior Managers Regime, the group chief risk officer ("GCRO") is specifically responsible for climate risk management. This includes:
- embedding climate change risks within business planning and risk appetite statements;
- conducting scenario analysis over different time horizons;
- ensuring sufficient board-level visibility and a clear allocation of roles/ responsibilities; and
- considering risk materiality as part of the annual Internal Capital Adequacy Assessment Process ("ICAAP").

The GCRO is supported by the board and the executive who collectively oversee delivery of the firm's climate risk objectives and are also responsible for challenging and approving the firm's broader climate and ESG strategy.

Group Risk and Compliance Committee
At an executive-level, climate risk management is primarily overseen by the Group Risk and Compliance Committee ("GRCC"), which is responsible for reviewing and challenging the risk framework employed to manage the financial risks from climate change. To support this, regular framework updates are presented to the committee with relevant climate risk MI also embedded within its long-established risk reporting mechanisms.

To support practical day-to-day oversight, responsibility is delegated to a Climate Risk Steering Committee which is chaired by the GCRO and tasked with overseeing climate risk framework design and delivery.

Executive Committee (and local Executive Committees)
The Executive Committee considers and implements initiatives to ensure a sustainable business model that takes into account all risks, including ESG.

Climate Risk Steering Committee
The Climate Risk Steering Committee coordinates programme governance and oversees the design and implementation of the firm's regulatory compliant climate risk framework, ensuring alignment with group strategy. It also ensures that regular updates are provided to the GRCC and BRC, enabling them to stay informed on framework delivery and opine on/review key strategic deliverables.

The steering committee is supported by focused subsidiary working groups covering credit risk, scenario analysis, Scope 3 and disclosures, and also works closely with the group's Sustainability Committee, which is responsible for day-to-day management of the firm's climate and ESG strategies.

Credit Risk Management Committee
The Credit Risk Management Committee ("CRMC") is specifically responsible for monitoring the group's credit risk profile. Accordingly, it is responsible for overseeing the management of climate-related credit risk considerations.

Over the last year it has received regular updates on the development and subsequent implementation of the Banking division's inaugural credit risk assessment framework, as well as the initial MI reporting stemming from this, designed to illustrate the potential climate risk sensitivity of different sectors and asset classes.

The committee has also reviewed and approved the integration of climate considerations within credit risk policies and standards, most notably to reflect new requirements introduced to support the management of associated credit risk impacts.

Business Risk and Compliance Committees
Business risk and compliance committees are responsible for overseeing risk profile, alignment to risk appetite and the effectiveness of the risk management and compliance framework at a local level. With regards to climate risk, these committees are responsible for overseeing key risks and opportunities on an ongoing basis. This includes monitoring of the evolving regulatory and industry landscape as relevant to each business, the review of regular risk MI, and oversight of local actions to align with group-wide change initiatives.

Sustainability Committee
The Sustainability Committee oversees the development of the group's sustainability strategy including the advancement of climate and ESG ambitions, and associated operational and financing activities, targets and metrics, supporting the chief executive and Executive Committee to recommend to the board for approval.

Training and competency
Both the board and executive team are committed to building and embedding a requisite skill set across climate and ESG competencies. The regular updates provided to the board and management committees over the course of the last year have played a key role in this regard, helping to educate key populations on the risks and opportunities that climate change presents, as well as the firm's progress in addressing these.

These updates have been supplemented by a number of externally facilitated training sessions, tailored to focus on the complexities associated with the topic – for example, the evolving regulatory landscape, specific board and management responsibilities and general trends in industry practice.

To support awareness more broadly across the organisation, a new mandatory training module was issued to all UK-based staff across the group during the year to support the development of a core level of understanding of climate risk considerations. Tailored updates and presentations were also delivered to relevant business and function-specific forums while further job-specific training is planned over the course of the next financial year to augment understanding and awareness among those likely to be most impacted. This will be delivered in line with planned future business operating model changes (see Risk Management). Going forward, additional capability and expertise will be enabled through further training of our people, including the undertaking of accredited climate qualifications where relevant, as well as the augmentation of new capabilities via recruitment and/or the use of external specialist expertise.

Strategy

We are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050

Supporting our customers, clients, and partners in the transition towards more sustainable practices

Overview

Across the organisation we recognise the importance of addressing the threat of climate change, and the urgency needed in tackling the environmental, economic and social impacts that it brings, noting that these extend across all sections of society, affecting all key stakeholder groups.

Our ongoing work to identify the risks and opportunities climate change poses to our business model remains a key area of strategic focus for the board and senior management. We take our responsibility towards the environment seriously and, as a group, are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050.

As a financial services provider we recognise the specific role we can play in supporting the climate agenda, aligning our lending and investment portfolios with the transition pathways of our clients. We provide expert financing solutions for UK SMEs and medium-sized businesses. As these businesses evolve and, over time, deliver their own transition plans to adopt clean technologies, greener assets, and new business models, we are ready to support them by providing appropriate financing solutions; in doing so, facilitating change and supporting the wider transition of the economy.

It is also important we meet our own emissions reduction targets across our operations, through the deployment of energy efficiency, green transport and renewable energy supplies. This will include coordination with our suppliers to ensure the impacts of all of our business processes are minimised.

Adapting in response to market, technological, regulatory and geopolitical developments that affect the shape and timing of the transition to a low-carbon economy is also critical. We will keep our policies, targets and progress under continual review, reflecting the rapidly changing external environment and the need to support our customers and societal ambitions.

We are currently working on formulating our detailed net zero strategy, the decarbonisation pathways necessary to support it and the associated targets which we will aim to disclose within 18 months. To date, our approach has focused on those areas across our businesses where we believe Close Brothers can have the greatest impact, breaking these down into three core pillar objectives (see chart on page 49).

In assessing climate-related risks and opportunities, there are two primary channels from which impacts occur, namely transitional and physical risks.

Transitional risks

Arising from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, or shifting sentiment and societal preferences.

These could similarly impair the value of financed assets or impact the creditworthiness of our customers should they fail to adapt effectively.

Physical risks

Arising from a number of factors including specific weather events (such as heatwaves, floods, wildfires and storms) and long-term shifts in climate (such as changes in precipitation, extreme weather variability, sea level rises and rising mean temperatures).

These could result in physical damage to the group's own properties, impair the value of financed assets or impact the creditworthiness of our customers.

We also consider potential impact across different time horizons. These take into account the long-term nature of some climate change impacts, while also ensuring alignment with the group's broader business strategy and financial planning cycles. The firm's approach to time horizons is likely to develop further over the coming years, both to align with the advancement of our targets and measures as well as the broader evolution of our climate risk framework.

As outlined in the sections that follow, no material impact is anticipated over the short to medium term.

Key Climate-Related Risks

As outlined on page 50, the group has undertaken an extensive analysis of the various risks presented by climate change, identifying impacts across various existing principal and key risks. Our analysis to date indicates that we are not immediately (over the short to medium term) exposed to potential material losses or disruption.

Over the longer term however, increased risk has been identified, primarily driven by transitional impacts such as changes to regulation, technological change and the evolution of consumer preferences. With regard to physical factors, we recognise that acute physical events are already happening, although more severe impacts are only likely to present in the long-term.

The core climate-related risks facing the group can be summarised as follows:

- Efforts and ambitions of governments and businesses to accelerate the transition to a low-carbon economy may result in rapid adoption of policy and regulatory intervention, presenting transition risk for ourselves and our customers (e.g. more aggressive energy efficiency requirements for buildings, acceleration of planned bans on new petrol/diesel cars).
- Increased global warming may lead to extreme variability in weather patterns, increasing incidence and severity of physical risks, which in turn could lead to our customers being disrupted and experiencing financial loss.
- The same extreme variability could also impact our own operations, either as a result of damage to offices or data centres, or through disruption to key suppliers (who may also be impacted by transitional factors).
- Risk associated with the group's own transition to a low-carbon economy – for example, a potential increase in costs associated with meeting key targets or a strategic failure to deliver in line with our transition plan.

The group has already taken steps to mitigate each of these core risks through the implementation of targeted measures within existing risk-specific frameworks. These include enhancements to business continuity plans and changes to our third party management process with further refinement planned over the years to come.

Our primary focus area is on potential credit risk impacts given the nature of the services we provide particularly within the Banking division. Importantly, the group has minimal appetite for coal and other fossil fuel extraction with enhanced due diligence required on individual case assessments. We

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do provide funding to some higher emission sectors and assets as detailed on page 49 and will continue to monitor concentrations across all sectors and asset classes.

Sector analysis from our loan book

While the firm is exposed to potential credit impacts, we consider any climate impact, in the short to medium term, to be substantially mitigated. Physical risk is reduced by our geographic location, with 99% of our loan portfolio based in either the UK or the Republic of Ireland, where the risk profile is lower. Regardless, across our property portfolio (100% UK), we still undertake analysis to consider the potential flood risk associated with every transaction, with only 2% of our existing portfolio currently in locations categorised as very high or high climate sensitivity, with appropriate mitigants put in place for each to ensure any potential risk is reduced.

Similarly, transitional risk is greatly reduced by our short loan book tenor (average residual tenor of 17 months with only 2% greater than 5 years) which enables us to quickly adapt our lending strategy to respond to any changes in asset or sectoral risk profiles. Rigorous underwriting and lending policies are also deployed, with any decrease in asset valuations mitigated by conservative structuring of the funding provided.

As outlined on page 47, progress has also been made to integrate climate risk within the broader credit risk management framework, supporting top-down oversight and in turn enhancing our risk management capabilities.

Key climate-related opportunities

As a significant provider of asset lending across the UK and the Republic of Ireland we believe there are also significant commercial opportunities to support our customers and clients as they transition to cleaner technologies.

The key opportunities identified to date relate to our lending portfolios, particularly within the energy sector and our wholesale finance business. We are already supporting the energy sector through renewables and reserve power, while within our transport business we are seeing significant growth with key partners in providing lending products for electric vehicles. We have set our inaugural green growth target this year, with the ambition to provide over £1 billion of lending for zero emission battery electric vehicles, over the next five years.

Other opportunities are still being explored with deep dive analysis recently launched through our annual strategic planning cycle. Whilst we are yet to engage our customers in a structured approach to improve their climate and ESG credentials, planning on the approach is well advanced to engage, partner and incentivise our customers and colleagues to reduce their environmental impact.

Our Business Planning Time Horizons

Short term (0-1 year)	Time horizon for annual budgeting and capital assessment.
Medium term (1-3 years)	Time horizon for business strategy and financial planning. Also aligns with typical ICAAP scenario analysis horizon.
Long term (more than 3 years)	Time horizon beyond typical financial planning cycle. Impacts primarily assessed through the use of long-term scenario analysis noting most material climate risks will crystallise in this horizon.

Looking ahead, advancement across the sector in data capabilities, particularly to support carbon accounting and the knowledge of individuals and SME businesses with regard to climate and ESG credentials, will facilitate greater management insights and inform ongoing disclosure transparency.

Scenario analysis pilot exercise

During the last year, we have continued to deploy scenario analysis to enhance our ability to identify climate-related risks and opportunities, and assess the resilience of our business model.

Since 2019, all divisions have been asked to consider potential climate scenarios as part of short to medium-term (1-3 years) scenario analysis run as part of the annual ICAAP framework. While no specific climate scenarios have yet been adopted for the group-wide scenarios deployed for Pillar 2b purposes (again using the firm's standard 1–3 year time horizon), climate impacts and possible climate-led scenarios continue to be discussed and debated as part of the scenario design process. Ultimately however, due to the short-dated tenor of our lending book, climate risk is not deemed to be a significant risk in the short to medium term.

This assessment was re-affirmed in the last year through the completion of an inaugural long-term scenario analysis exercise designed to explore potential climate risk impacts over an extended (30-year) time horizon. This was the first time the firm had undertaken an exercise beyond our typical strategic planning cycle and a proportionate approach was subsequently taken to planning and implementation. This prioritised scope coverage of our motor and asset finance businesses – capturing c.£5 billion/60% of our loan book.

Recognising the complexities and challenges posed by such an exercise, the firm engaged the support of a third party to aid scenario development. Ultimately, we elected to use three Network for Greening the Financial System ("NGFS")-aligned scenarios, each reflecting contrasting transition paths:

i) Early action: Transition to a low-carbon economy starts early, increase in global temperatures stays below 2°C (global climate goal);
ii) Late action: Global climate goal is met, however the transition is delayed and is more severe to compensate for the late start; and
iii) No additional action: No additional policy actions beyond those already announced, Global climate goal not met.

Each scenario was assessed on two different bases:

i) No management actions – testing static financial year 2019 balance sheet (pre-pandemic) at different points in the scenario to determine resulting financial impact; and
ii) With management actions – allowing for changes in business strategy at each five-year interval i.e. changes in loan book composition, additional risk mitigation measures and pursuit of new commercial opportunities.

Given data and modelling limitations, a broadly qualitative approach was adopted. Assumptions were primarily expert-judgement driven, with business modelling underpinned by quantitative industry data inputs and projections, and emerging trends for key sectors including transport/energy provided by a third party. Analysis was completed at five-year intervals out to 2050 with modelling run at a portfolio level. High level business assumptions were applied to key financial parameters (i.e. impairment and loan book movements), with outputs intended to be directional only given known limitations.

As part of this work, workshops were held with business senior management, sector experts and risk specialists to explore and assess climate-related vulnerabilities and opportunities, and identify proportionate and timeous mitigation strategies. The exercise proved extremely valuable, prompting genuine and thought-provoking consideration of real-world impacts while generating significant interest from both first and second line stakeholders, including at an executive and board level.

Within the portfolios across our motor and asset finance businesses we can already see that technology advancements and customer demand are accelerating the transition to battery electric vehicles and we anticipate this trend will continue to accelerate. Additionally, the renewables sector together with the necessary supporting infrastructure has been recognised as key opportunity areas within our analysis and we anticipate that new technologies emerging across our sectors will continue to offer further opportunities.

Our initial scenario analysis proved its real value through the identification and consideration of potential management actions over a range of transition pathways that could serve to mitigate any material impact and in addition supported the embedding of climate risk impact consideration within longer-term strategic planning. While risks over a longer time horizon were identified, our business model continued to demonstrate its strength and robustness, providing the tools and capacity to largely mitigate these over the short to medium term. We will continue to evolve our strategy and capabilities to ensure we can continue to support and fund our customers as they transition to the use of new technology and lower carbon assets.

In the next year, we intend to further advance our use of long-term scenario analysis, expanding coverage to include our property business while also completing initial counterparty-specific assessment across sectors likely to be most impacted. In doing so, we will seek to leverage enhanced data capabilities, both internally and externally, with a view to taking a more quantitative approach. The availability of comparable portfolio-relevant data remains a challenge, particularly across retail and SME markets, meaning the evolution of our approach is likely to be gradual.

Climate strategy

We recognise the need to continually assess and monitor the threats and opportunities associated with climate change. As our data capabilities improve, providing more powerful insights, strategy across each of our three core pillars will evolve.

The Three Pillars of our Climate Strategy

Achieving net zero operations
Achieving net zero operations and reducing supply chain emissions, working with our partners and suppliers to minimise operational impacts

Reducing our financed emissions
Supporting the goals of the Paris Agreement through re-alignment of our financing and by assisting our customers in meeting their transitional targets

Financing the transition
Enabling the deployment of cleaner technologies and business model adaption through our green growth lending strategy, leveraging our expertise and ensuring alignment with agreed risk appetite

1. Achieving net zero operations

We continue to focus on the initiatives in our direct control to decrease our operational footprint. We have previously set ourselves challenging net zero aligned targets for our direct operational emissions and continue to make good progress towards our ambitions to achieve a net zero position for our car fleet by 2025 and for all of our Scope 1 and 2 emissions across our operations by 2030.

We have recently expanded our carbon accounting to cover all categories of our Scope 3 emissions, providing us with initial visibility across both our direct and indirect operational emissions. This will enable us to develop our emission reduction plans for all our operational impacts, working with our suppliers and partners in areas such as facilities management and IT services. This year, we have continued to broaden our engagement with our supply chain on environmental matters, while working with those who share our ambitions to efficiently use resources and combat the adverse effects of climate change. We have extended the emissions data we collect from our suppliers and continue to explore ways in which we can incorporate carbon impact criteria into our choice of suppliers.

Reducing the impact our operations have on the environment continues through a number of initiatives and improvement programmes, to continue lowering our emissions, reducing our energy use and enhancing our energy efficiency. This year we continued momentum with additional energy savings, energy efficiencies and water use reductions. We have set our facilities management contractor the task of evaluating the current estate of buildings and their building services, to develop a further inventory of energy efficiency measures. Furthermore, having already adopted renewable electricity supplies for our offices, we have recently added green gas supplies to reduce further the impacts of the energy we do use.

Post pandemic, we continue to benefit from reduced commuting in the year with staff continuing use of flexible and hybrid working practices, with associated environmental benefits. We encourage our employees to make positive change by leasing low emission cars and participating in the cycle to work scheme. To support their own switch to an electric car, we offer our employees a salary sacrifice scheme as a route to make the shift.

We have continued to reduce the impacts of our company car fleet by only now offering battery operated fully electric cars onto the fleet, with the aim to meet our zero emission car fleet by 2025.

Waste recycling is encouraged in all our offices and 100% of the waste contractors we use across our offices send zero waste to landfill. Our progress in Scope 1, 2 and 3 emissions is detailed in page 54.

2. Reducing our financed emissions

This year, we have significantly advanced our carbon accounting and reporting. This includes our results from our Scope 3 assessment which covers emissions across all 15 categories of Scope 3, including our initial assessment of financed emissions across our loan book.

We have adopted the Partnerships for Carbon Accounting Financials ("PCAF") methodologies to calculate our financed emissions. As signatories to PCAF, we will engage with our peers and share best practice frameworks to advance accounting for financed emissions and improve the resolution of our analysis.

Guided by our commitment to align to the Paris Agreement's net zero ambition by mid-century, we will define our targets for sustainable finance opportunities across both our existing established finance markets as well as new market and technologies sectors that best fit with our established lending criteria and technical capabilities.

In the coming year we will enhance our customer data across our financing activities, which will provide us with the insights needed to be in a position to set credible longer-term targets that will:

- validate our support for the Paris Agreement;
- demonstrate the role we will play in supporting our customers transition, and
- complement our established net zero operational targets.

Acknowledging our previous support of the goals of the Paris Agreement to achieve net zero by 2050, and as we further develop our understanding of the impacts of our financed emissions, we will progress forward in evaluating wider goals for our business and its impacts. Demonstrating this progress we have recently become a signatory of the Net Zero Banking Alliance, committing to setting robust, ambitious and science-based targets.

3. Financing the transition

We have been an active provider of green and sustainable finance across a number of sectors for several years.

We recognise supporting UK businesses in their transition through the adoption of green technologies offers a significant growth opportunity for the Banking division building

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on this recent track record, our strategy in this area is underpinned by our significant expertise in the asset and sectors we fund, rigorous underwriting, monitoring and control processes to assess credit and climate-related risk and our commitment to build capabilities in emerging technologies. We will continue to adapt lending policies and grow existing green portfolios to fit evolving economic and industry landscapes.

To further our commitment, we aim to broaden our support for renewable technologies such as solar and wind power, expand our funding of cleaner transport solutions such as zero emission electric vehicles, and expand our green financing into new technologies and markets including charging infrastructure, battery storage and energy efficiency (across buildings and industrial processes). We will continue to provide customers with the support, finance and expertise they need to grow and flourish and realise their own transitions.

As we develop our decarbonisation transition plan over the next 12-18 months we will closely monitor projected sector transition pathways and aim for the emissions of our lending activity to at least align with sector-wide reductions in the medium to longer term.

One example of a green growth opportunity is in zero emission vehicles. Being a significant funder of both goods vehicles and passenger vehicles, transport is a specialist sector for us. We support our clients to bring new, cleaner vehicles to their fleets.

Transport is the highest-emitting sector in the UK economy and so the electrification of surface transport (supported by modern grid infrastructure and significant deployment of renewable electricity) represents a key transition for our business and consumer customers.

We are a leading provider of finance for the adoption of zero emission electric vehicles, deploying finance for new innovative vehicles into sectors such as logistics and delivery, supporting electrification of car fleets, and enabling innovative financing packages for consumer adoption of electric cars.

Battery electric cars represents over a third (35.3%) of all new cars we funded in our commercial business in the last year, more than double the proportion across new car sales in the UK (15.3%).

We believe the battery powered vehicle sector offers a significant growth opportunity. Our assessment of this market potential is based on transport policy drivers and an appetite from our customers, including our corporate customers, looking to meet their own carbon reduction targets.

We have set ourselves an ambition of providing over £1.0 billion of lending for zero emission battery electric vehicles over the next five years from 2023 to 2027.

Risk management

Integrating Climate Risk into Risk Management

As outlined in our Risk Report (see pages 74 to 92), the group employs an Enterprise Risk Management Framework to effectively manage the risks it faces on a day-to-day basis. In addition to detailing the core risk management components and structures used across the firm, the framework defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. It also outlines each of the firm's principal risks, setting the foundation for the individual risk frameworks put in place to manage and mitigate each.

Consistent with our approach to risk management, the group considers climate risk to be a cross-cutting risk, noting the potential for impacts arising from climate change to affect several of our existing principal risks. We recognise that these may be both physical and transitional in nature.

Noting the longer horizon over which some climate impacts will ultimately crystallise, and the propensity for emerging policy and regulatory developments on the topic, the group also continues to track climate risk as one of its core emerging risks (see page 91).

Substantive progress has already been made in embedding climate risk considerations within our existing risk frameworks, with further refinement and enhancements planned over the months and years to come. The completeness of this journey is critical. Over time, our expectation is that climate risk will be considered within every component of our risk framework, ensuring full coverage through our risk lifecycle.

Integration within key parts of our group policy framework, risk appetite statements and group stress testing framework has been an important first step on this journey, and over time, the extent to which climate risk consideration becomes further embedded within business-as-usual risk assessment and decisioning will be an important benchmark of our success.

How we identify, assess and manage climate-related risks

Recognising the potential for climate change to present both disruptive physical and transitional impacts, the group coordinated an initial risk identification exercise in 2019 with a view to identifying the most material risks to the group. This covered all business areas as well as relevant group central functions and, using a pre-agreed questionnaire format, was successful in identifying potential climate-related impacts across several existing principal or key risks, most notably:

- Credit risk (counterparty and collateral impacts)
- Operational risk (premises and people, and third party impacts)
- Traded market risk
- Regulatory risk
- Conduct risk
- Business and strategic risk
- Funding and liquidity risk

The group has subsequently sought to review and consider all identified risk areas, with consideration given to each aspect of the risk lifecycle, namely (1) Identify; (2) assess; (3) control and mitigate; (4) review and monitor; and (5) report.

For each, businesses and group central functions have developed, or are developing, processes and reporting to support the effective management of potential climate impacts going forward, as well as the embedding of clear accountabilities and responsibilities.

To date, our focus has primarily centred on credit and operational risk impacts consistent with our view that these areas carry the highest level of potential risk. Whilst we accept that we are exposed to degrees of both transitional and physical risk, current risk exposure is not considered to be material.

However, we accept that developments over the longer term (particularly those with a transitional impact) could impact the business without the implementation of appropriate management actions and the evolution of our business operating model.

To date our analysis of each risk area has remained broadly qualitative with industry best practice still not established and data needs and capabilities (both internally and externally) still evolving. Over time, developments both within the group and across the industry will facilitate a more quantitative assessment of potential impacts. Some quantitative analysis, such the completion of our inaugural long-term horizon scenario analysis exercise outlined on page 48, has been performed, greatly supporting our ability to understand and assess potential risk exposure.

Credit risk

Our primary focus has undoubtedly been on credit risk given its materiality to the Banking division and the wider group, but more so its sensitivity to possible climate impacts, noting that both physical and transitional drivers have the potential to affect both counterparty and collateral risk.

To enable a standardised assessment of current loan book exposures to physical and transitional risks, we have developed and implemented a first-generation climate sensitivity methodology. This utilises a standardised impact classification approach with exposures categorised from "Low" to "Very High" based on the potential sensitivity at both a counterparty (driven by sector) and asset level. The methodology relies on existing data sources and applies a set of qualitative, expert judgement assumptions to assign exposures into different classifications.

Presently the methodology is deployed across c.£7 billion of the Banking division's loan book (77%) and has proved useful in identifying those exposures deemed as having the most potential sensitivity to climate change, namely:
- Carbon asset funding within our Motor/Asset Finance businesses
- Non-renewable energy and carbon asset funding
- Receivables funding in potentially impacted sectors within our Invoice Finance business
- Residential/commercial property funding (particularly in high flood risk locations) in our Property business

Importantly, the current methodology does not account for time horizons over which climate impacts are expected to crystallise, meaning that the segmentations it produces are not necessarily representative of our current portfolio risk. As outlined on page 42, we believe the short average tenor of the portfolio significantly mitigates the risk associated with our existing book.

Nonetheless, outputs from the methodology have provided important insights into potential future risk with resulting sensitivity dashboard extracts incorporated into regular reporting to key risk committees since October 2021. These include divisional risk and compliance committees ("RCCs"), CRMC, GRCC and the board risk committee.

Addressing data and future enhancements

Data quality remains a key challenge and we are committed to developing enriched climate credit risk data that will support more accurate measurement and monitoring that can in turn support not just effective risk mitigation but also strategic alignment.

To support us in this endeavour, we have now commenced the development of a second-generation climate assessment methodology that will incorporate a more sophisticated approach utilising both qualitative and quantitative inputs. This will:
- facilitate customer and asset assessment scorecards for each exposure as relevant;
- leverage a wider range of data attributes (both customer and asset); and
- incorporate customer outreach at onboarding to better understand counterparty-specific climate and ESG sensitivities.

Our transition to this enhanced methodology forms an integral part of our plan for enhancing climate risk management capabilities. It will also require us to address various existing data gaps which will be facilitated by the gathering of more customer data as well as the leveraging of industry wide data sources where relevant and available.

Whilst we envisage it will take time to implement, the enhanced methodology will ultimately move functionality beyond simple reporting enhancements, initiating parallel changes to operating models, credit sanctioning processes, core systems and, in time, our credit modelling approach. The enhanced reporting and MI it will provide will also facilitate more decision useful insights that will in turn support the evolution of the firm's longer-term strategy for managing risks and opportunities and the development of more tailored credit risk appetites based on sectoral transition risk assessments.

Operational risk

Premises and people

Recognising the potential for climate change to impact both our buildings and service provision capabilities, particularly in the event of a sustained increase in temperatures over the longer term, the group has conducted a review of its existing business continuity plans as well as its broader approach to crisis management to ensure it is adequately prepared. Where necessary, appropriate updates have been made to ensure sufficient consideration of potential impact although the location of the group's properties and service centres (primarily UK and Ireland-based) reduces our exposure to the most immediate physical risks.

Potential climate impacts on our people, customers and infrastructure are also now considered in crisis management simulations conducted across the group. These span from disruption to data centres as a result of extreme weather events, to operational impacts resulting from the failure of key third parties, right through to significant changes in customer preferences.

Relevant operational risk standards have also been updated to recognise the risks presented by climate change while work continues to incorporate climate risk considerations within our assessment of operational resilience for critical services and change management risk assessments. Over time, we also plan to gather further physical risk data on our premises, including key data centres, with a view to supporting our assessment of future risk. More immediately, consideration of a bespoke climate-based Pillar 2a operational risk scenario is underway as part of our next ICAAP cycle.

Third party risk

The group also recognises the potential for key third parties and suppliers to be impacted by climate change (due either to physical or transitional factors), causing disruption to day-to-day business operations. Enhanced supplier due diligence questionnaires have now been introduced to gather climate and ESG data for all of our Tier 1 and Tier 2 suppliers while our tendering process has been updated to consider environmental and climate considerations alongside sustainability innovation.

Where practical, measurable performance indicators are also now included within agreements with performance against these monitored on an ongoing basis. Whilst we have not yet set climate-specific third-party risk appetites, we continue to work collaboratively with our suppliers to support them with their climate and ESG agendas. Over the next year we plan to further enhance the group's third-party management framework to keep pace with the evolving regulatory landscape, adapting our risk assessment processes and controls as appropriate.

Other risks

Work to integrate consideration of climate risk across other identified risk areas is also progressing at pace. Climate change, and the group's response to it, now forms an integral part of our business strategy. This includes continued assessment of the resilience of our model, to ensure we are sufficiently prepared to manage the risks posed by it. As outlined on page 45 (Governance section), strong oversight of strategic delivery is maintained through our committee framework, with consideration of climate risks now embedded within our strategic planning and new product approval processes.

Funding and liquidity impacts have also been reviewed and are now subject to ongoing re-assessment with regular updates provided to relevant Treasury committees. Primary focus areas include implications for debt capital markets, potential behavioural changes in our investor base, and possible direct and indirect reputational impacts, including those related to evolving disclosure requirements.

We also continue to assess traded market risk implications for Winterflood, although the business' role as a market maker means we do not take long-term positions, mitigating potential risk exposure.

The rapidly evolving regulatory landscape also presents risk and we recognise our responsibility to comply with new and emerging requirements. Horizon scanning capabilities have been enhanced in response, with new developments initially identified via the group's Regulatory Oversight Group and subsequently assigned to relevant functions and business areas as appropriate.

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Work is also underway to consider conduct risk implications. In particular, we recognise the need for transparency across all levels of disclosure. This includes compliance with any new product-specific disclosure requirements as they come into effect. Linked to this, we also note the increased potential for litigation risk should we fail in this regard.

Our asset management business has integrated responsible investment practices in our investment process to aid us in creating long-term value for clients and beneficiaries, in turn leading to sustainable benefits for the economy, the environment and society. This approach is underpinned by our focus on stewardship, where we have set ourselves high standards of integrity and excellence to deliver consistent value for our people and clients. We also continue to grow our product offering for clients who wish to further align their investments to their values; we offer ethical screening, Sustainable Funds and our Socially Responsible Investment Service and are actively looking at ways in which we can align our portfolios with positive environmental, social and governance factors. To do this, we are continually educating our people and clients on industry best practice, and are signatories of the Principles for Responsible Investment ("PRI").

Looking ahead to 2023 and beyond, we have mobilised a Sustainability Programme with dedicated initiatives to embed the principles of responsible investment and stewardship across all facets of our business including becoming a signatory of the UK Stewardship Code. We believe that to manage our Asset Management clients' capital responsibly, we must be acutely aware of, and respond to, the material risks and opportunities presented by climate change. We also believe the asset management industry can play a huge role in facilitating the transition to a lower carbon economy, while being mindful of the impacts to society. To drive this forwards, our asset management business will be making a commitment to actively contribute towards the UK government's net zero climate goals, through the Net Zero Asset Managers initiative, in addition to maintaining a prudent approach to ESG risk management.

Risk appetite

During the last year, work has continued to integrate consideration of climate risk within the group's risk appetite statements. This has included the ongoing refinement of existing qualitative statements as well as the development of quantitative risk measures for relevant principal and key risks.

While quantitative measures are, in the main, currently included for monitoring purposes, we are continuing to develop more tailored, formal risk appetites, particularly for credit risk. We expect these to be based on sectoral transition risk assessments, aligned to our ambition to meet the goal of the Paris Agreement to reach net zero by 2050.

Metrics will be further enhanced as data and capabilities evolve, and over time we expect these to also leverage scenario analysis and our enhanced credit risk reporting methodology to enable the setting of risk appetite across different time horizons.

During the last year, we have made progress in developing further our climate strategy and our understanding of our broader emissions including our full operational emissions (including Scope 3) and early assessment of our financed emissions in our loan book. Our footprinting activities in the year have broadened our boundary to include our full Scope 1, 2 and 3 operational emissions across the group as well as an initial evaluation of our Scope 3 financed emissions (initially focused on our lending book).

We recognise the importance of addressing the threat of climate change and also appreciate the vital role we can play in supporting our customers on the transition to a low-carbon economy. Having previously set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions, we are now setting ourselves a wider and longer-term ambition to align all of our operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by 2050.

To this end, we have recently joined 116 other banks globally, as a signatory to the Net Zero Banking Alliance. This sets us on a clear trajectory to further develop our understanding of our full value chain emissions (including our financed emissions) and to set short-term and long-term targets aligning our operational and financed greenhouse gas emissions with pathways to net zero by mid-century.

Our climate strategy is formed around three pillars:

- Achieving net zero operations across our buildings and fleet (covering our Scope 1 and 2 emissions), as well as our wider operational impacts in our supply chain emissions (Scope 3)
- Measuring and reducing our financed emissions across our lending and investment portfolios to support our customers to meet their own goals and aligning our pathway to net zero by mid-century
- Developing our green financing activities, growing existing green markets (such as our current work supporting our customers' transition to battery electric vehicles), as well as opening new green asset categories where they align to our lending expertise and appetite.

Reducing our operational emissions

Having previously made good progress across our building and fleet emissions (including setting of ambitious net zero targets for our Scope 1 and 2 emissions by 2030 as well as a net zero fleet by 2025), we have expanded further our assessment of operational impacts this year.

As can be seen in the tables on pages 54 and 56, we have now carried out our first evaluation of our full operational footprint, covering Scope 1 and 2 as well as all relevant Scope 3 categories.

We gather our environmental data and compile our greenhouse gas emissions with the support of an independent third-party analytics and reporting consultancy.

Further to meeting all of the mandatory reporting requirements under the Streamlined Energy and Carbon Reporting ("SECR") standards, we are now providing enhanced disclosure across our wider operational impacts.

Our methodology for calculating and disclosing our GHG emissions and energy use is in accordance with the requirements of the World Resources Institute GHG Protocol Corporate Standard, GHG Protocol Corporate Value Chain Accounting and the SECR standards. We report on all material Scope 1 and 2 emissions associated with our operations. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity. We have also reported our indirect Scope 3 operational emissions across all relevant categories.

In the 2022 financial year, our total location-based GHG emissions were 2,679 tonnes of carbon dioxide equivalent (tCO_2e), equating to 0.70 tCO_2e per employee, up 2% overall but down by 1% per employee from 2021. Though we saw significant reductions in emissions from our buildings in 2022, we saw a similar sized increase in fleet emissions as our relationship managers got back on the road following the quieter Covid-19 period.

Our offices and Brewery Rentals Operations

As can be seen in the chart on page 55, a growing proportion of the energy we use across our offices as well as use in our Brewery Rentals sites (primarily to clean the kegs) is coming from renewable sources. We have extensive deployment of renewable electricity across our sites and primarily use wood pellets to raise heat for our barrel cleaning processes. This year, these existing sources of renewable energy have been complemented with our use of green gas (supplied to us with Renewable Gas

Metrics and targets

Our Climate Strategy

As a signatory to the Net Zero Banking Alliance
We commit to transition all operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by mid-century, or sooner, including CO_2 emissions reaching net zero at the latest by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

Operational emissions

Achieving net zero operations
Achieving net zero operations and reducing supply chain emissions.
Working with our partners and suppliers to minimise our operational impact.

Financed emissions

Reducing our financial emissions
Supporting the goals of the Paris Agreement to achieve net zero by 2050, aligning our financing over time to support the necessary reductions and timelines, enabling our customers to meet their targets.

Helping to finance the transition
Enabling the deployment of clean technology and business models through our green growth lending strategy.
Growing existing green asset markets and unlocking new sectors that align with our lending expertise and appetite.

Our Climate Ambitions

Become operationally net zero through our Scope 1 and 2 emissions by 2030.

To reach net zero emissions by 2050 across our operational and attributable GHG emissions from our lending and investment portfolios.

Provide over £1 billion of lending for zero emission battery electric vehicles over the next five years (2023-2027).

Achieve a net zero company car fleet by 2025.

In development:
Interim (2030) financed emissions targets supporting our path to net zero.
Further green asset lending targets across specific technologies or markets

Guarantee of Origin ("RGGO") certificates). This gives us complete traceability and assurance that our gas comes from authentic biogas sources. Our gas supplier is a registered supplier with the Green Gas Certification Scheme ("GGCS").

Our ongoing approach across our operations of energy efficiency and sourcing of renewable energy continues to drive down our Scope 1 and 2 emissions. We have now achieved a reduction of 44.8% in our Scope 1 and 2 emissions since 2019 under a market-based approach, which demonstrates good progress towards becoming operationally net zero by 2030.

During the past year, our energy efficiency programme across our office estate has implemented a number of energy-saving initiatives, including:

- Boiler demand strategy: reviewing the boiler usage at one of our sites has saved an estimated 10% gas consumption since it was implemented. Based on this success, we are now looking to roll out this initiative across other office sites.
- Decommissioning staircase heating: a planned change to how we heat the staircases and other communal space at our Head Office has saved an estimated 5% gas consumption at this site since implementation.
- Continuation of our LED lighting upgrades: lighting across a further three office sites has been upgraded to efficient LED lighting saving 5.2 MWh of electricity this year.

Electrifying our car fleet
Our drive towards having a fully electric car fleet and a net zero fleet by 2025 has continued this year. We are proud of our leading strategy, allowing us to demonstrate to our customers how progress in decarbonising fleets can be achieved – an area we can support them to finance.

Since January 2022 we have only offered fully electric, battery electric vehicles ("BEVs") options on our car scheme (other than in exceptional circumstances).

Our fleet of 639 cars is now almost wholly battery electric or hybrid (as can be seen in the diagram on page 55) and we anticipate the majority of the vehicles to be BEVs by the end of the 2022 calendar year.

Our efforts to transition our fleet (and to progress towards our net zero target by 2025) has driven our fleet average emissions down further this year (and a long way ahead of the UK average for new vehicles).

The average CO_2 emissions have now fallen to 32.9 gCO_2/km (2021: 57.3 gCO_2/km).

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Our Operational Impacts

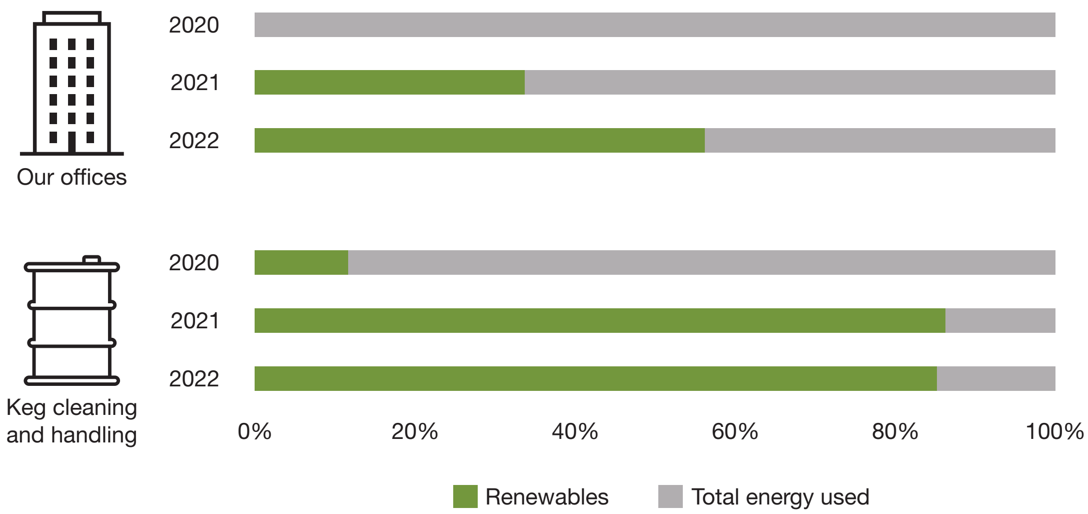
Greenhouse gas emissions[1,2]	Emissions source	Location based 2022 tCO_2e	Location based 2021[3] tCO_2e	Market based 2022 tCO_2e	Market based 2021[3] tCO_2e
Scope 1	Buildings - fuel	**379**	712	**355**	712
	Owned vehicles - fuel	**1,015**	345	**1,015**	345
Total Scope 1		**1,394**	1,057	**1,370**	1,057
- Of which UK Total Scope 1		***1,358***	*1,057*	***1,334***	*1,057*
Scope 2	Buildings - electricity	**1,123**	1,511	**906**	1,428
	Owned vehicles - electricity	**162**	57	**162**	57
Total Scope 2		**1,285**	1,568	**1,068**	1,485
- Of which UK Total Scope 2		***1,242***	*1,446*	***941***	*1,306*
Total Scope 1 and 2 (Operational)		**2,679**	2,625	**2,438**	2,542
- Of which UK Total Scope 1 and 2		***2,600***	*2,503*	***2,275***	*2,363*
Scope 3 (Operational)	Category 1 - Purchased goods and services	**44,219**	141		
	Category 2 - Capital goods	**19,291**			
	Category 3 - Fuel and energy-related emissions	**712**	129		
	Category 4 - Upstream transportation and distribution	**86**			
	Category 5 - Waste generated in operations	**206**	44		
	Category 6 - Business travel	**1,110**	130		
	Category 7 - Employee commuting	**4,212**			
	Category 9 - Downstream transport and distribution	**408**			
Total Scope 3 (Operational)		**70,244**	444		
Total Scope 1, 2 and 3 (Operational)		**72,923**	3,069		

Energy Use	**2022 GWh**	2021 GWh
Total energy use	**18.47**	16.70
- Of which UK Total energy use	***18.06***	*16.44*

Emission Intensity	tCO_2e per employee 2022	tCO_2e per employee 2021	tCO_2e per employee 2022	tCO_2e per employee 2021
Operational Scope 1 and 2 emissions intensity	0.70	0.71	0.64	0.69
Operational Scope 1, 2 and 3 emissions intensity	19.14			
- Calculated using: Average number of employees in year	***3,810***	*3,709*	***3,810***	*3,709*

1 We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from August 2021 to July 2022. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.
2 Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and covers all greenhouse gases (converted to TCO_2e). We have used emissions factors published by the UK government's Department for Business, Energy & Industrial Strategy, and the International Energy Agency.
3 During year end carbon accounting we identified a small adjustment to the 2021 financial scope 2 emissions. The 2021 scope 2 footprint has been restated - increasing slightly by 9 tonnes under location based and 12 tonnes under market based accounting.

Proportion of Renewable Energy used Across our Offices and Brewery Rental Sites



Recognising our progress
We continue to participate in the CDP, which allows us to disclose our greenhouse gas emissions and our approach to managing climate-related impact on a voluntary basis. We were pleased to be awarded a B- in the latest CDP scores in December 2021, in recognition of the positive ongoing progress we are making. This year, we were also proud to be included again, for its second year, in the Financial Times' list of European Climate Leaders, recognising our position as one of the top 300 European companies at reducing Scope 1 and 2 emissions.

Understanding our financed emissions

We recognise the need for holistic action on climate change. We are addressing the impact of our own operations through our existing targets of net zero Scope 1 and 2 operational emissions by 2030 and a net zero fleet by 2025.

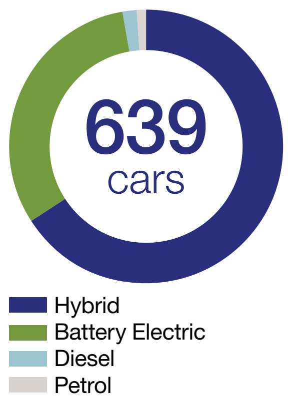
This year we have begun our journey to evaluate the wider impacts of our business, by including our financed emissions in our carbon accounting.

To assess these emissions we have used the PCAF approaches, applying the guidance included in their Global GHG Accounting and Reporting Standard for the Financial Industry, drawing on three of their developed methodologies, business loans, project financing and motor vehicle loans. On review, 87% of our loan book is in scope of GHG assessment under the current PCAF standard. Of this, 59% has been assessed under the business loans methodology, accounting for an apportioned amount of emissions from these businesses, in line with the value we finance. A further 5% of our total loan book has been assessed under the project finance methodology. Here, we have accounted for the apportioned emissions of the project due to our contribution. A final 23% of our loan book has been assessed using the motor vehicle loans methodology, accounting for the annual in-use emissions of the vehicles that we finance.

Due to limited availability of data, we have, leveraged robust datasets from the UK government, the OECD and others, in line with PCAF recommendations, within our assessment. This is our starting point and is based on current best available data. We have a strategy to move forward on progressing the availability, granularity and accuracy of the data utilised to further improve the quality of this reporting. However, as recommended by PCAF, we are choosing to not allow low data availability to deter us from beginning our journey to assess our financed emissions. We report now as it sets our intention as a business to align our loan portfolio with the Paris Climate Agreement and move towards not just improved accuracy in our reported emissions but also to drive greater decarbonisation across the activities we finance.

In the table on page 56, we have set out the initial emissions calculations for this proportion of our loan book against each category, as well as the impacts of our operating lease business which we have included under Scope 3 category 13 – downstream leased assets. We have also included estimates of emissions impacts of any assets we dispose of under category 11 (Use of sold products – for their remaining life), and category 12 (End of life treatment of sold products).

Our Own Car Fleet



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Our Financed Impacts[2]

Greenhouse gas emissions	Emissions source		2022 tCO_2e
Scope 3 (Financed)	Category 11 - Use of sold products		196,526
	Category 12 - End of life treatment of sold products		100
	Category 13 - Downstream leased assets		535,989
	Category 15 - Investments[1] (loan book only)		707,421
	Of which:		
	- Motor vehicle loans	394,493	
	- Business loans	218,985	
	- Project finance	93,943	
Scope 3 (financed)			1,440,036

Emission intensity	tCO_2e per £M loan book 2022
Financed emissions intensity (Category 15 - Investments only[2])	88.8
- Calculated using: loan book related to activities currently included in the footprint £8.0 billion	

1 Partnerships for Carbon Accounting Financials ("PCAF") methodology selected as the most appropriate approach to calculating financed emissions.
2 Our initial assessment of financed emissions covers our banking loan book only and excludes our asset management activities.

Green Growth

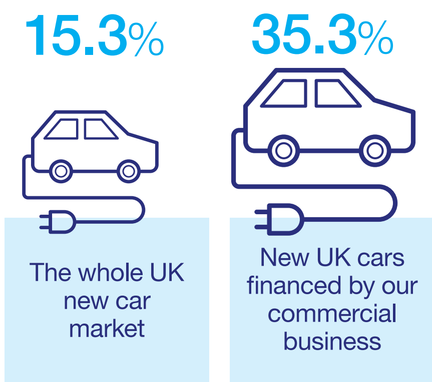
We recognise the significant growth opportunities for green asset lending across several of our existing asset classes, as well as new ones. As a specialist, adaptable lender, with deep understanding of our customers' needs, we can support them in their transition to new cleaner technologies to meet their own sustainability targets.

As an existing lender across a range of vehicle markets (both passenger and commercial), we are already seeing growth in battery electric vehicles, as our fleet customers seek to reduce their emissions. In our wholesale finance business, we are seeing a major move to fully battery electric cars, an example being our support for the launch of a new personal car hire offering by Octopus Electric Vehicles (see case study right).

Demonstrating our leadership in providing support for the deployment of zero emission vehicles, in the past year, 35.3% of new cars financed by our commercial business have been battery electric. This is more than double the proportion that were seen across the whole UK market in the same period.

Building on this early success in supporting the electrification of surface transport, as an initial green growth ambition, we have set ourselves the ambition to provide funding for at least £1.0 billion of battery electric vehicles in the next five years (2023-2027).

Proportion of New Cars that were Battery Electric in the Past Year



Our Sustainability Alliances

Net Zero Banking Alliance

Close Brothers has recently signed up to the Net Zero Banking Alliance ("NZBA"), a global coalition of banks convened by the UN.

As a signatory to the NZBA, we commit to transition our lending and investment porfolios to align with net-zero pathways by 2050.

Partnership for Carbon Accounting Financials

This year, we joined Partnership for Carbon Accounting Financials ("PCAF") to support our progress in measuring our financed emissions.

PCAF is a collaboration of over 290 financial institutions worldwide with the aim of harmonising the assessment and disclosure of greenhouse gas (GHG) emissions associated with their loans and investments.

CDP

CDP is a global not-for-profit organisation that runs the world's environmental disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. For the seventh year in a row, in 2022, we disclosed through CDP. In reporting our environmental data through CDP, we are able to benchmark our greenhouse gas emissions reporting and our approach to managing our climate-related impacts. In December 2021, we were pleased to be awarded a B- in the CDP scoring, in recognition of the positive ongoing progress we are making in addressing the threat of climate change.

UN environment programme | finance initiative

PCAF Partnership for Carbon Accounting Financials

CDP DISCLOSURE INSIGHT ACTION

New Personal Contract Hire package launched to consumers with Octopus Electric Vehicles

Our wholesale finance business has been working with Octopus Electric Vehicles for the last 3 years. We were the first funder to support their own book offering which allowed them to take to market their fully electric salary sacrifice product. Since launch, the product has grown exponentially and Octopus Electric Vehicles are now one of the fastest growing leasing companies in the UK.

Building on this success, we have continued to work with Octopus Electric Vehicles to support them bringing new innovative products to the market. In July 2022 we were pleased to be named as sole funder for the launch phase of their exciting new consumer offering: "the ultimate EV package". This offers consumers a complete EV solution, combining a new electric car with Octopus flexible EV domestic energy tariffs and a smart home charger, installed for free. This combination allows the customer to take advantage of cheaper and greener 'time of use' energy tariffs to charge their car.