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.

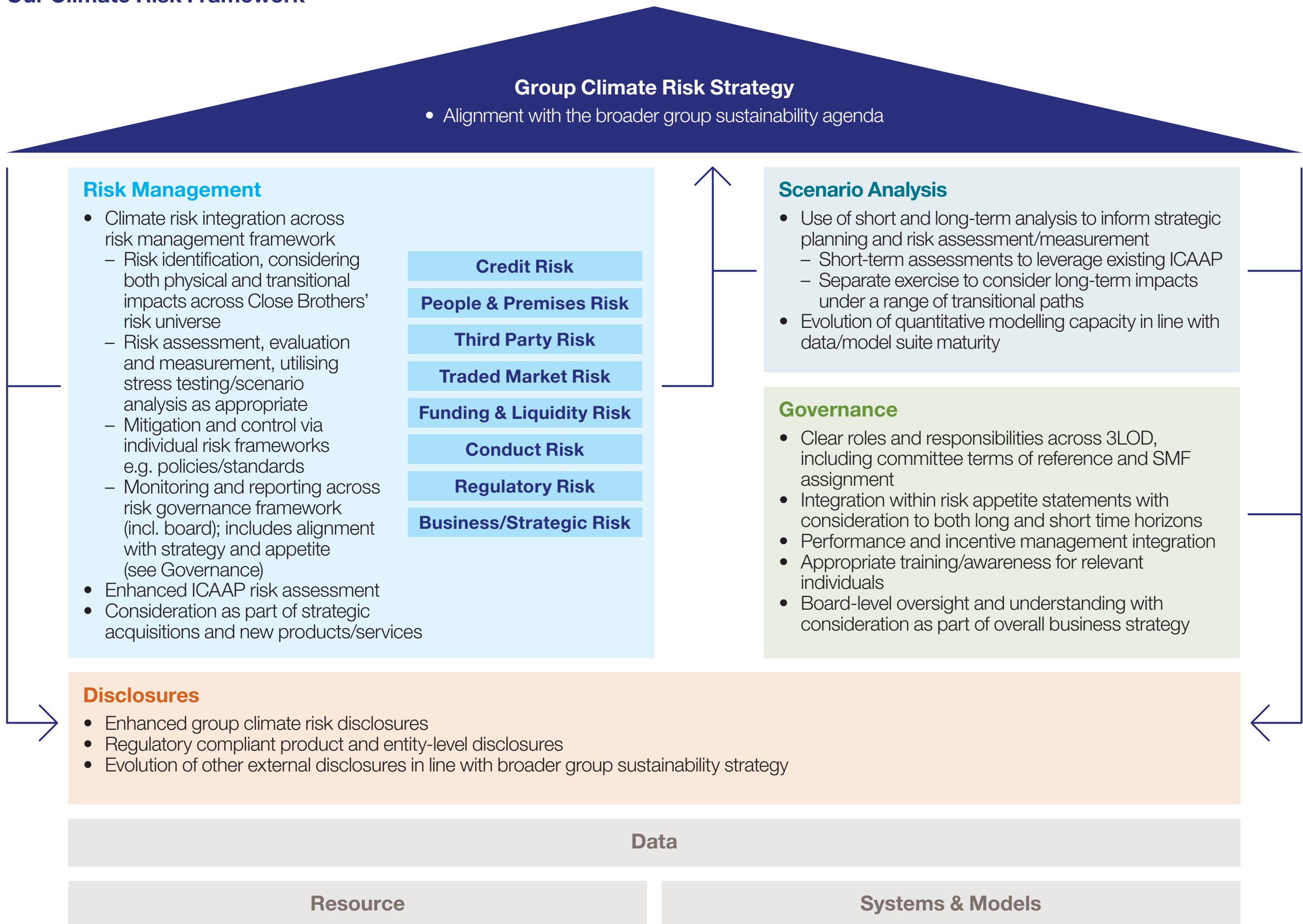
Climate-related Disclosures Overview

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.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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

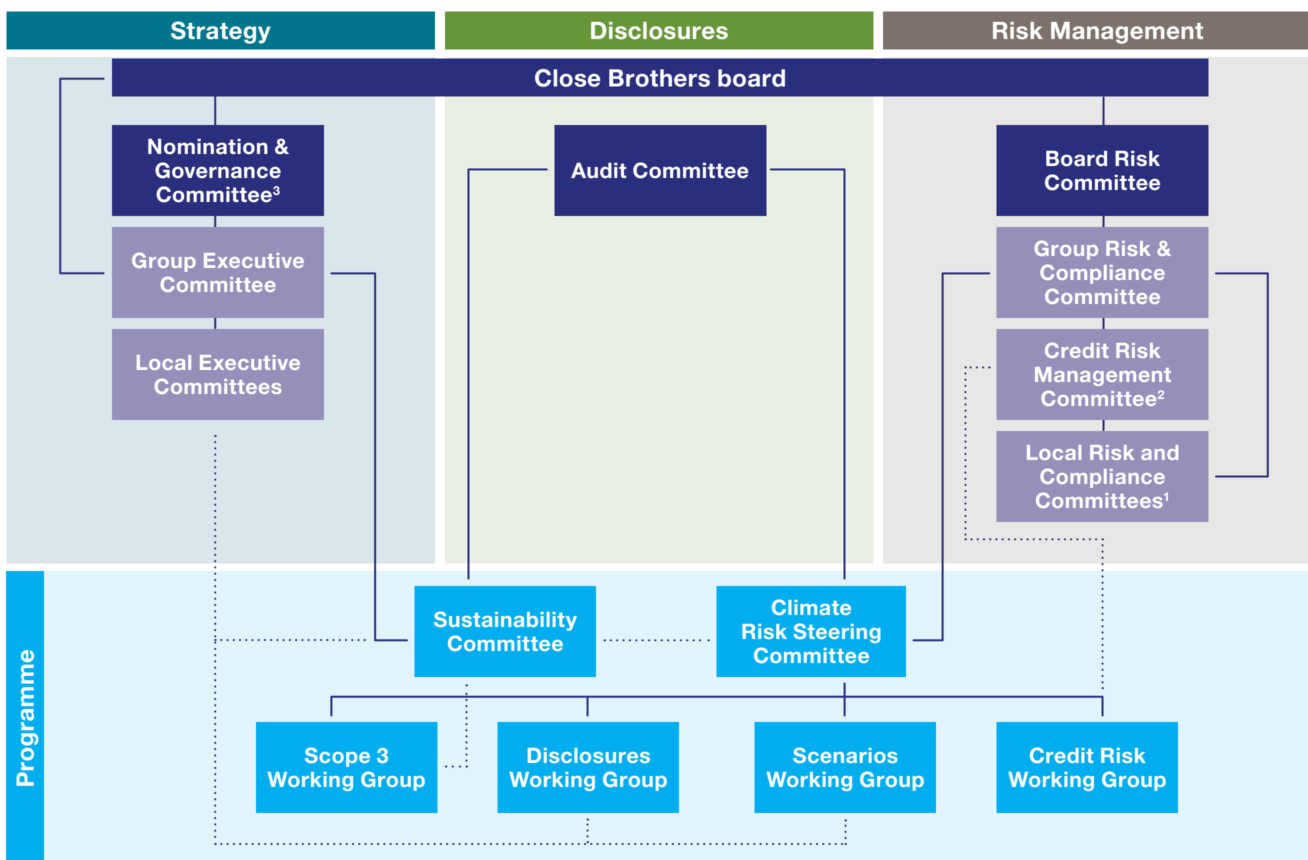
Since 2020, the corporate governance framework has been subject to continuous review and refinement to ensure effective oversight of risk framework implementation and manage the interconnect with the firm's climate strategy.

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

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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	Reducing our financed emissions	Financing the transition
Achieving net zero operations and reducing supply chain emissions, working with our partners and suppliers to minimise operational impacts	Supporting the goals of the Paris Agreement through re-alignment of our financing and by assisting our customers in meeting their transitional targets	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

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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.

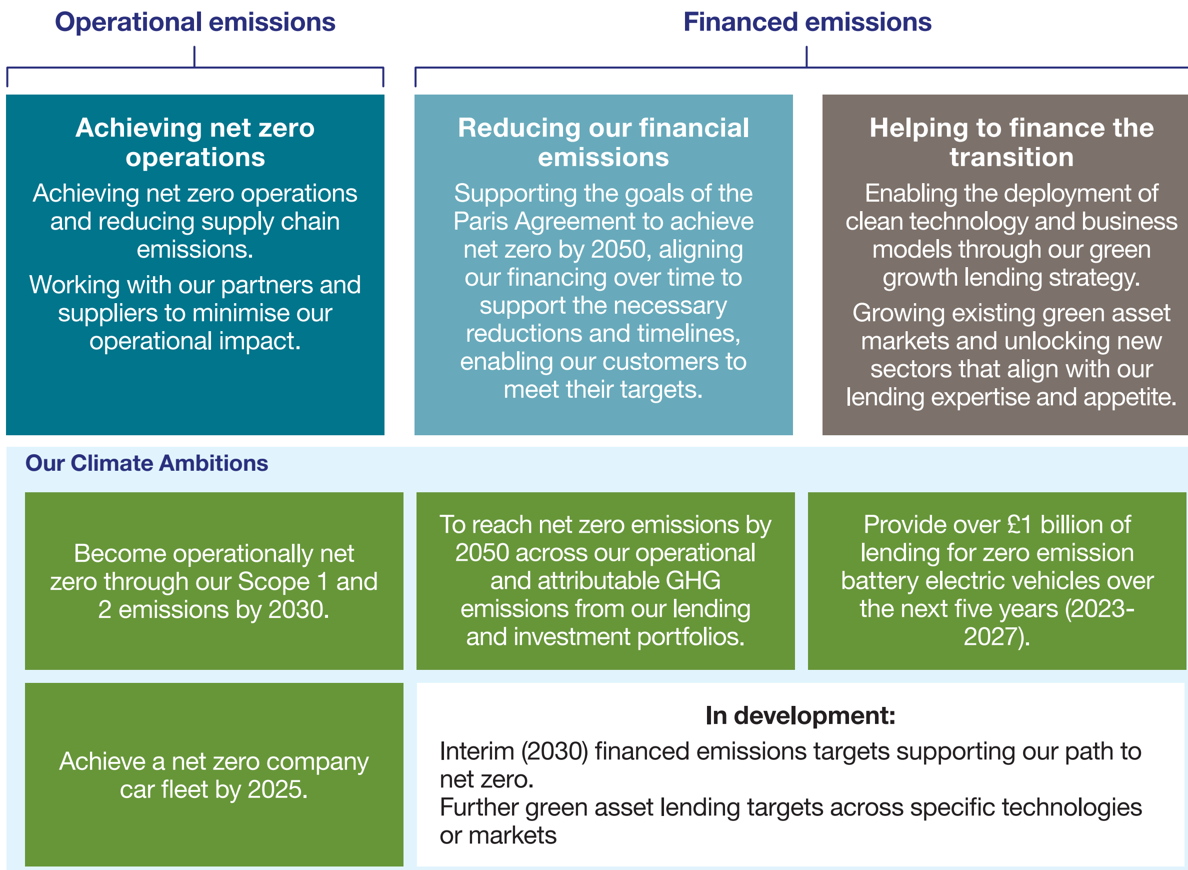
In the 2022 financial year, our total location-based GHG emissions were 2,679 tonnes of carbon dioxide equivalent (tCO_2e), equating to 0.70 tCO_2e per employee, up 2% overall but down by 1% per employee from 2021. Though we saw significant reductions in emissions from our buildings in 2022, we saw a 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



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).

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

Our Operational Impacts

Greenhouse gas emissions[1,2]	Emissions source	Location based		Market based	
		2022 tCO_2e	2021[3] tCO_2e	**2022 tCO_2e**	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*

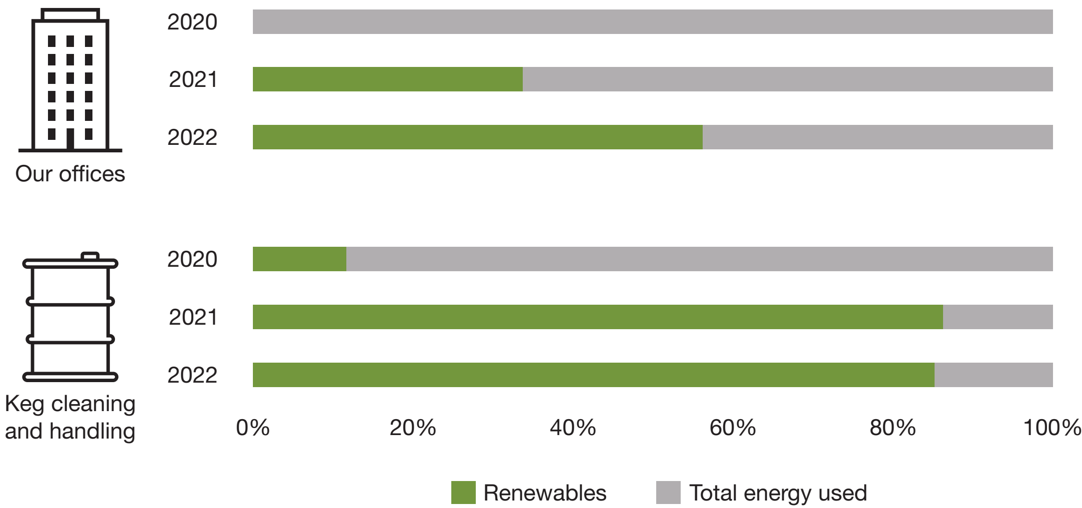
Emission Intensity	tCO_2e per employee		tCO_2e per employee	
	2022	2021	**2022**	2021
Operational Scope 1 and 2 emissions intensity	0.70	0.71	0.64	0.69
Operational Scope 1, 2 and 3 emissions intensity	19.14			
- Calculated using: Average number of employees in year	***3,810***	*3,709*	***3,810***	*3,709*

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.

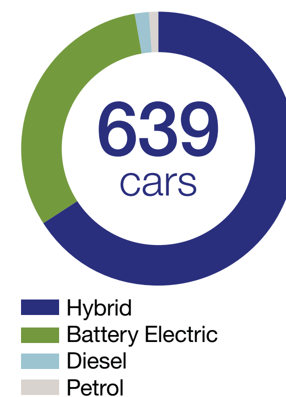
This year we have begun our journey to evaluate the wider impacts of our business, by including our financed emissions in our carbon accounting.

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



Hybrid
Battery Electric
Diesel
Petrol

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

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.

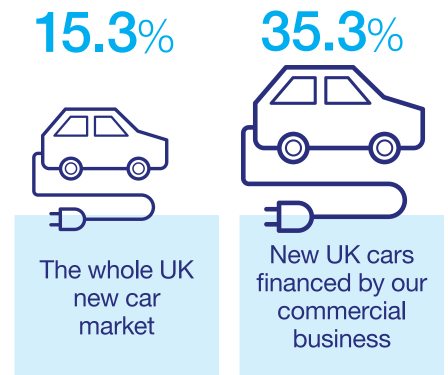
Green Growth
We recognise the significant growth opportunities for green asset lending across several of our existing asset classes, as well as new ones. As a specialist, adaptable lender, with deep understanding of our customers' needs, we can support them in their transition to new cleaner technologies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

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.