Our net zero update
March 2024
Introduction

As a leading UK merchant banking group, we recognise the role we play in supporting the transition to a low carbon economy, working with our customers and wider stakeholders on the journey to a net zero future.

In its 2023 Green Finance Strategy, the UK government estimated that to deliver on the UK’s net zero ambitions, through the late 2020s and 2030s an additional £50-60 billion capital investment will be required each year.

In September 2022, we became a signatory to the Net Zero Banking Alliance (“NZBA”), committing to transition all operational and attributable greenhouse gas (“GHG”) emissions from our lending and investment portfolios to align with pathways to net zero by 2050 or sooner.

As part of this, we committed to develop sector-based intermediate 2030 emissions reduction pathways for the most carbon-intensive sectors in our loan book.

Our initial focused sectors included in this document are in road transport, specifically cars and light commercial vehicles/ vans (“LCVs”). Over half of our assessed financed emissions detailed in our 2023 annual report relate to the attributable emissions of road vehicles.

We have set out below the approach we have taken in setting these pathways as well as including some examples across our transport lending businesses, where we are already supporting an accelerated transition to low carbon vehicles.
Measuring our transport related financed emissions

We work collaboratively with the Partnership for Carbon Accounting Financials ("PCAF") and its other member banks to advance shared methodologies to consistently calculate the financed emissions attributable to assets in our loan book. In 2023, we worked with an external consultancy to carry out a review of our approaches to accounting for our Scope 3 emissions (including our supply chain and our financed emissions).

We have also advanced our climate data sourcing, in particular for transport assets, enabling us to increase our PCAF data quality score to 2.4 in our Annual Report 2023.

Recognised net zero pathway

The NZBA requires banks to align to a credible scenario from a well-recognised source. As our loan book is predominantly UK based, we have chosen the UK Climate Change Committee’s Balanced Net Zero Pathway ("CCC BNZP") from the Sixth Carbon Budget. This reaches net zero in 2050 with over 60% of the necessary reductions achieved by 2035 and the fastest rate of decarbonisation occurring in the early 2030’s. A key element of the initiative is the electrification of surface transport.

In line with NZBA guidelines, we commit to reviewing our pathways at a minimum every five years, striving to align them with major changes in international agreements or national goals. We will also publish progress against these annually in our Sustainability Reports and continue to develop and enhance our internal capabilities to track and monitor our progress.

Dependencies

Achieving an intensity reduction ambition aligned to the above selected pathway across the cars and LCVs in our loan book this decade is dependent on several external factors including:

- the market supply and take-up of battery electric vehicles (“BEVs”) in each of these transport market sectors, (including the used car and LCV markets);
- growth in the charging infrastructure and grid connectivity to support increased BEV deployment;
- ongoing government incentives and support such as its current benefit-in-kind bandings based on a car’s CO₂ emissions; and
- the longer-term coalescing of BEV prices vs. their petrol/diesel equivalents.
At the beginning of 2024, the UK government put in to law its Zero Emission Vehicle Mandate – setting out the percentage of new zero emission cars and LCVs that manufacturers will be required to produce each year. This new law will require 80% of new cars and 70% of new LCVs sold in Great Britain to be zero emission by 2030, increasing to 100% by 2035. We will continue to work with businesses and key industry players to help support this transition, and to play our role in supporting the deployment of a growing proportion of battery electric vehicles into the UK economy. However, we recognise that the ability for the UK market to meet the Balanced Net Zero Pathway is dependent on availability and performance of new technologies and vehicles, the ability for fleet operators to adapt their operations to these new vehicles, and the availability of our finance products to support these.

Examples of our current initiatives

• Our Vehicle Hire business offers quotations for equivalent BEV LCVs with all its pricing requests, ensuring awareness of the evolving BEV product solutions are at the forefront of customers’ minds. As HGV manufacturers offer new alternative fuel vehicles (“AFVs”) we will adopt the same strategy by offering electric HGV quotations in parallel to all HGV quotations.

• Our wholesale finance business has been working with an electric vehicle specialist provider for the last four 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 significantly. Building on this success, we have continued to work with the customer to support their new innovative products. In 2022, we were sole funder for the launch phase of their exciting new complete EV solution. This package provided a new electric car, a flexible domestic energy tariff and a smart home charger. This combination allows the customer to take advantage of cheaper and greener ‘time of use’ energy tariffs to charge their car.

• Our transport business is working proactively to facilitate the transition to electric fleets by providing rounded solutions for the charging infrastructure, particularly in the SME space where ‘back to base’ charging will be essential.
We finance a range of road transport sectors from motorbikes, cars and LCVs through to heavier vehicles including trucks, coaches and buses.

- **Motor Finance** offer several products at point of sale in a dealership, or online via a broker, which allow consumers to buy primarily used vehicles from over 4,200 retailers in the UK.
- **Asset Finance** provides vehicle hire purchase and leasing solutions.

### Establishing 2023 as our baseline:

- The average emission intensity (gCO₂e/km) for cars in our loan book in 2023 is 130 gCO₂e/km. This would need to reduce by 41% to reach an average of 76 gCO₂e/km by 2030 to align with the CCC BNZP.
- The average emission intensity (gCO₂e/km) for LCVs in our loan book in 2023 is 190 gCO₂e/km. This would need to reduce by 39% to reach an average of 116 gCO₂e/km by 2030 to align with the CCC BNZP.

The average emission intensities of both car and LCVs in our loan book in 2023 are lower than the CCC BNZP.
In addition to our new emission intensity reduction ambitions for cars and LCVs, we have an existing ambition for funding BEVs across the bank.

In September 2022, building on our early success in supporting the electrification of surface transport, we set ourselves our first green growth ambition, which was to provide funding for at least £1.0 billion of BEVs in the five years from 2023 to 2027. In the first year (financial year to end of July 2023), we funded £164 million.