Understanding and disclosing how climate change may impact our business

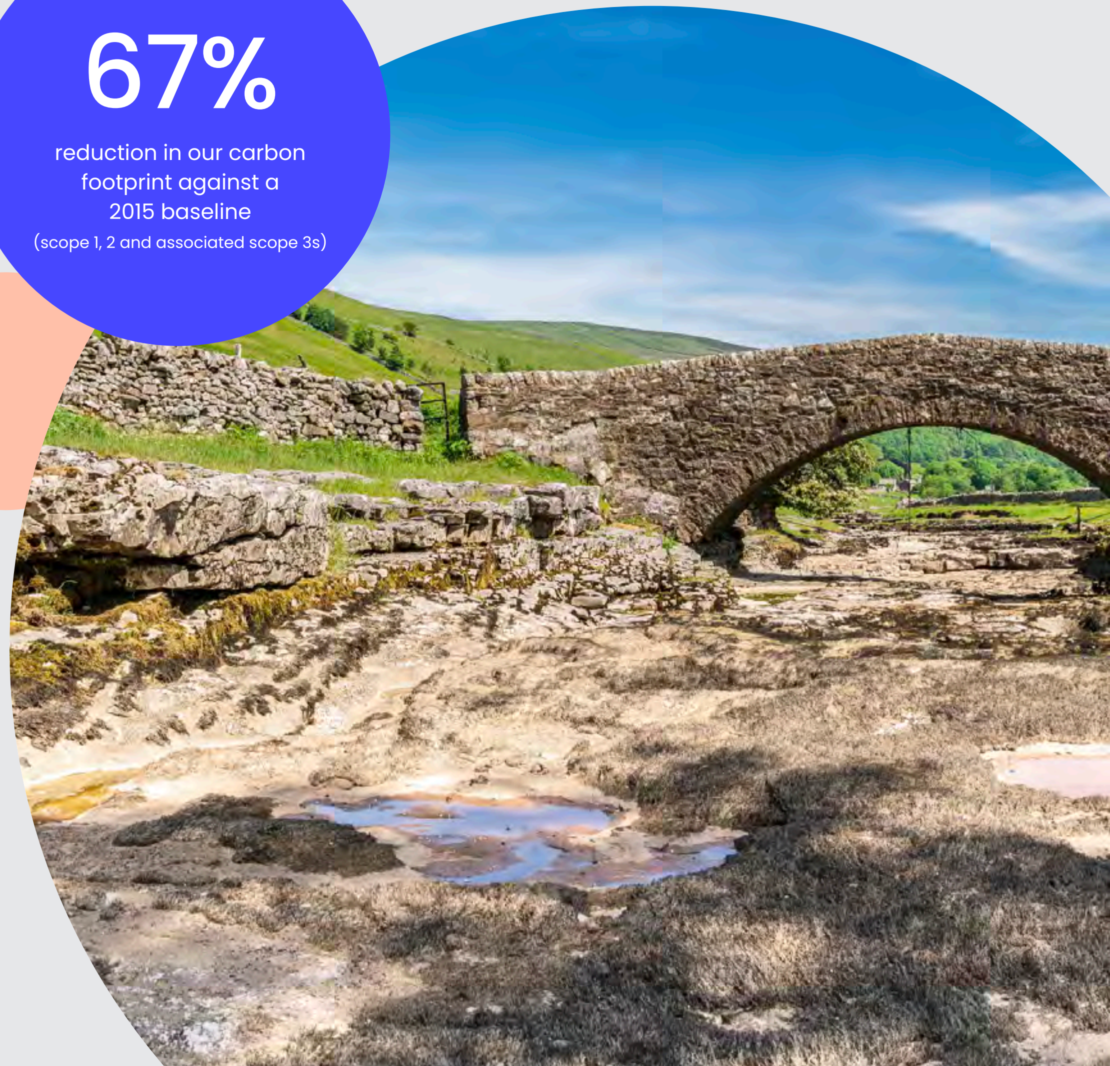
In 2020, in support of the UK Green Finance Strategy, we set out our ambition to achieve net-zero greenhouse gas emissions by 2040. We also conducted a review to identify how the Group can work towards meeting the recommendations of the TCFD, which also took into account our environmental targets. In terms of the review of our environmental targets, we determined that we will need to achieve deeper emissions reductions that align with climate science and the rules governing the setting of science-based targets, while enabling us to deliver our commercial objectives. We will therefore develop and publish a science-based reduction target and other related targets that will enable us to realise our net-zero ambition by the end of 2021.

In terms of the TCFD, we fully support the aim of this framework, and will increase our disclosures in line with its recommendations. In order to do this, we have put new climate risk governance arrangements in place, as well as initiate work that will enable us to undertake a scenario analysis to determine what the impacts to the business would be if the temperatures were to rise by 1.5 degrees Celsius and 4 degrees Celsius.

To read more about our new climate risk governance, please see page 45

67%

reduction in our carbon footprint against a 2015 baseline
(scope 1, 2 and associated scope 3s)



Understanding and disclosing how climate change may impact our business continued

Meeting the recommendations of the TCFD

The objective of the TCFD is to advance the quality of financial disclosures related to the potential impacts of climate change in order to improve investors, regulators and other stakeholders' ability to assess climate-related risks and opportunities. Unlike other reporting frameworks, TCFD is not about our impact on the environment, it is about the environment's impact on us. Put simply, its recommendations require us to disclose around the TCFD's four pillars of governance, strategy, risk management and metrics and targets. Set out below is a summary of the progress we made in 2020 in terms of reporting in line with the recommendations of the TCFD.

TCFD recommendation	Ongoing progress in 2020	Focus areas for 2021
Governance	In 2020, we established a Company-wide Climate Risk Committee to review our climate change strategy and monitor material risks and opportunities. This committee, which will have its first meeting in April 2021, will be chaired by the Group Chief Risk Officer and will report directly to the Group Executive Committee. It will also report into the Board's Customer, Culture and Ethics Committee and Group Risk Committee. Below this, the PFG Corporate Responsibility Function is responsible for monitoring climate-related issues.	In addition to finalising the Committee's terms of reference and PFG's new climate risk strategy, the focus for 2021 will be on agreeing the methodology that will be used to undertake a Group-wide climate risk scenario analysis which takes account of our value chain, divisions and functions, and the different aspects of our business models, assets, operations and organisational structures.
Strategy	Climate change risks have the potential to impact PFG's business strategy through increased costs for us operationally, as well as for our customers, reduced productivity of colleagues and reputational damage. Throughout 2020 and into 2021, we have undertaken work to understand what the most material climate-related risks are to our business, as well as the most material opportunities in the short term. This built on initial work carried out by Vanquis Bank to understand the short-term and long-term financial risks that climate change presents to its business models. We also initiated work to develop a methodology that will enable us, using the risks referred to above, to undertake scenario analyses to assess the probability and magnitude of the financial implications of climate change for our business (see page 44 for more information).	Through our Committee, we will work with colleagues from finance, risk and operations to undertake analyses to test the impacts on our business of the following scenarios: one in which rapid decarbonisation achieves a 1.5 degrees Celsius above pre-industrial levels increase; and one where emissions remain high (4 degrees Celsius above pre-industrial levels) and physical climate impacts dominate.
Risk management	Throughout 2020, we undertook work to start to identify the physical and transition climate-related risks that have implications for PFG's business models and stakeholders (e.g. customers, colleagues and suppliers). This built on the work that Vanquis Bank carried out to allocate responsibility for identifying and managing financial risks from climate change to the relevant senior management function(s) (SMF(s)) most appropriate within its organisational structure and risk profile as is requested by its regulator the PRA.	Once our Climate Risk Committee has started to meet, we will be able to ensure that material climate change risks are integrated into our risk management framework and through our registers, ensuring that the following are identified: risk driver, description of risk, potential impact, timeframe, whether the risk or opportunity is direct or indirect, likelihood and magnitude of impact. We will also ensure that material exposures to climate-related risks are included within Vanquis Bank's ICAAP.
Metrics and targets	During 2020, we set out our overall target to be net zero by 2040. We also continue to measure and monitor our scope 1 and 2 emissions, along with some of our scope 3 emissions, and report progress on a range of metrics covering our direct and indirect greenhouse gas emissions.	We will set a science-based carbon reduction target and other related targets that will enable us to realise our net-zero ambition by the end of 2021. To support us to do this, we will also sign up to the 'Business Ambition for 1.5°C' pledge.

"At PFG we understand that we have a key role to play in responding to the climate crisis. This means ensuring that our climate-related targets are aligned with the Paris agreement which aims to hold the increase in global average temperature to well below 2 degrees Celsius above pre-industrial levels, and ideally, to 1.5 degrees Celsius. And this is why we set an overall target in 2020 to achieve net-zero emissions by 2040.

Rob Lawson
Head of Sustainability

Understanding and disclosing how climate change may impact our business continued

Identifying material climate-related risks

Throughout 2020, we carried out an initial assessment to identify the main types of climate-related risks that could impact our business models and/or stakeholders. We did this by engaging with internal stakeholders from the Group's subsidiary businesses across the Group in order to identify risks that might potentially impact specific parts of our business. In doing so, we engaged with colleagues from a range of different departments and functions, including risk, investor relations, operations, finance and property so that we could understand how climate change might impact the operations in each business, and also to get a sense of our stakeholders' interest in the agenda. Using the information that was collected through this process, we carried out an initial assessment to rank each potential risk. This information, which is summarised below, was then shared with the Group Executive Committee and Board's Customer, Culture and Ethics Committee, and will be discussed further by the Climate Risk Committee at its first meeting.

Customer financial wellbeing

The risk that a customer is financially impacted by climate change and thus does not make the required payments in line with their agreements with the Group's businesses.

Supply chain/suppliers

The risk that a supplier is impacted by climate change which consequently affects the Group's operations.

Extreme weather events

The risk that the Group faces from extreme weather events that result from changes in temperature.

Climate risk management and reporting

The risk that the Group's structure, policies, processes and culture do not promote effective or ethical behaviour by senior management.

Increased costs

The risk that climate change results in price changes leading to increases in operational costs.

Colleague wellbeing

The risk that colleague wellbeing and productivity are impacted due to climate change.

Access to liquidity and funding

The risk that climate change impacts the Group's ability to maintain sufficient liquidity and funding.

Once the Climate Risk Committee has started to meet, we will work to ensure that any material risks are integrated into the Group's risk management framework and in our risk registers, ensuring that the following are identified: risk driver, description of risk, potential impact, timeframe, whether the risk or opportunity is direct or indirect, likelihood and magnitude of impact. We will also ensure that material exposures to climate-related risks are included within Vanquis Bank's ICAAP.