Chesnara

CLIMATE-RELATED FINANCIAL DISCLOSURES

2024

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CLIMATE-RELATED FINANCIAL DISCLOSURES

This report is to provide the climate-related financial disclosures of Chesnara plc for the year ended 31 December 2024. This report is in line with the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). The relevant TCFD recommendations have been referenced throughout the disclosures to show where they have been addressed.

Our compliance with TCFD

This report meets the recommendations of TCFD and is supplemented with relevant illustrations and case studies taken from our Annual Sustainability Report.

Our annual sustainability report

Alongside the financial statements, the Group has published its 2024 Annual Sustainability Report (**www.chesnara.co.uk/sustainability**) and provides further detail on a number of items noted in this report which are referenced as appropriate.

Steps to address climate-related risks during 2024

- Delivered sustainability training to all employees across the Group
- Development of our climate transition plan using the IIGCC's Net Zero Investment Framework 2.0 underway
- Joined UK Sustainable Investment and Finance Association, Finance for Biodiversity Foundation and became a signatory to the Principles for Responsible Investment
- Complied with the Energy Savings Opportunities Scheme Regulations 2014
- Enhanced our climate risk modelling, including assessing our Climate Value at Risk (CVaR)
- Updated our UK Expense Policy to encourage sustainable travel
- Engaged with our largest suppliers and asset managers on their climate strategy
- Embedded sustainability into the acquisition process

GOVERNANCE

The Chesnara Board sets the values and culture of how the business operates and the Group invests time and resources to ensure that the governance structures in place remain appropriate for the evolving business and regulatory landscape. Further information on the Group's governance is provided in the corporate governance section of our Annual Report and Accounts.

a) Board oversight of climate-related risks and opportunities

The chart below sets out the Group reporting structure and how the Board has delegated climate-related risk and opportunity oversight to its various committees.

CHESNARA GROUP BOARD

Meets at least quarterly

The Board defines the Group's strategic aims, ensures that the necessary resources and structures are in place and sets the targets to review management performance. The Board benefits from regular sustainability reporting covering environmental, social and governance matters.

GROUP AUDIT & RISK COMMITTEE (GA&RC)

Meets at least quarterly

The role of the GA&RC includes reviewing and monitoring the current and potential risk exposures, including the monitoring of climate-related risk exposures across the Group and how such risks are treated. The GA&RC reviews external reporting, including with regards to climate-related risks and opportunities.

NOMINATION & GOVERNANCE COMMITTEE

Meets a minimum of three times a year

The Nomination & Governance Committee plays a key role in ensuring that the composition of the Board and its subsidiaries is appropriate and that members have the necessary skills, knowledge and experience to discharge their duties effectively, including with regards to climate change. It is also responsible for reviewing the Group's governance practices and procedures to ensure they remain appropriate and reflect best practice.

GROUP REMUNERATION COMMITTEE

Meets a minimum of three times a year

The role of the Remuneration Committee is to ensure that the Remuneration Policy promotes, encourages and drives long-term growth of shareholder value of which climate change is a key consideration. In 2024, a 20%/15% weighting of the Group CEO and CFO strategic objectives were linked to sustainability actions.

GROUP SUSTAINABILITY COMMITTEE (GSC)[1]

Meets at least quarterly

The GSC interacts with the Board and the committees above and below in the following ways: with the Board on the sustainability strategy and embedding it into the overall group strategy; with the GA&RC on ESG risks and external disclosures, including TCFD; with the Nomination & Governance Committee on matters regarding Board composition and sustainability-related skills, knowledge and experience of the Board and Board committees; with the Remuneration Committee on trends in which management is and should be incentivised on ESG factors; with the GIC on investment-related matters, including the transition plan to net zero; and with the SLT and divisional Executive Committees to facilitate all of the above.

GROUP CEO

SENIOR LEADERSHIP TEAM (SLT)

Meets monthly

The SLT is in place to challenge and support the Group CEO. It supports the identification and review of risks impacting the Group, including any material variations in the impact of climate change upon the Group, as well as the monitoring of risk appetite compliance. It also supports oversight of the sustainability programme.

GROUP INVESTMENT COMMITTEE (GIC)

Meets twice a quarter

The GIC is in place to challenge and support the Group CEO. The GIC Terms of Reference specifically include consideration of ESG factors, including overseeing the asset managers' approach to ESG and climate change related matters.

Board · Board committees · Group Sustainability Committee · Group Executive Committees

The business units, with their own local governance structures and Boards, feed climate-related matters into the Group governance structure via GSC reporting, quarterly business reviews, risk reporting and annual local business plans (note this list is not exhaustive) where applicable.

Sustainability is being embedded into succession planning and recruitment on a role-by-role basis, and forms part of the overall skills matrix for the Chesnara Board in order to ensure the Board and committees have appropriate knowledge and competency to be able to oversee climate-related matters.

[1] *The GSC is not a Board committee but operates across the Group, interfacing with the Board and working with Board committees and Group Executive Committees.*

b) Management's role in assessing and managing climate-related risks and opportunities

How climate-related risks and opportunities are identified and considered

The divisions are responsible for identifying their own climate-related risks and opportunities through assessing potential matters that may impact the business. These risks and opportunities, together with those areas that may impact the Parent Company or Group as a whole, are reviewed by the Group Head of Sustainability and the Group Chief Risk Officer & Chief Actuary, to form an assessment of the risks and opportunities for the Group. The risks and opportunities are reassessed regularly so that, if a material risk was to arise, we would add it to the risk and opportunity register to ensure that it is evaluated according to the Risk Management Framework and evolving climate-related matters.

Who is assigned responsibility?

Management responsibility for matters related to climate change is assigned to the Group Chief Executive at Group level and the respective CEOs at business unit level. All divisions and business units are responsible to the relevant divisional Chief Executive who has dual reporting lines to the divisional Board and the Group Chief Executive. Sustainability forms part of the executive management variable remuneration, and the ratio allocated to sustainability will continue to be assessed on an ongoing basis.

How management and Board members are informed of and monitor climate-related risks and opportunities

Group Board: receives regular reporting on sustainability, including climate change. This includes consideration of the Group climate change risk assessment (through the GA&RC), and the overall vision and approach of the Group in regards to sustainability and groupwide climate change-related scenario analysis. Specific training on transition plans and their key elements was delivered to executive and non-executive directors across the Group during 2024.

Group Sustainability Committee: chaired by Jane Dale, the Group's Senior Independent Non-Executive Director. Its membership consists of the executive management across the Group and its divisions. This committee is the key focal point for the review of climate-related risks and opportunities and links in with the other Group governance committees. The GSC annual agenda planner determines which topics are covered at each meeting and those meetings, together with the GIC and SLT, will determine the items to be escalated to the Board. The interactions of the GSC with the different committees and the Board are detailed on the previous page. Jane's tenure as a Non-Executive Director of the Group is ending in May 2025 and therefore steps to appoint a replacement chair are ongoing.

Senior Leadership Team: regularly discusses climate-related risks and opportunities and how they factor into business planning, strategy and risk management.

Group and local Investment Committees: working with the GSC, the Group Investment Committee (GIC) focuses on the just transition of the Group's asset portfolio in line with its net zero targets. The GIC and GSC also work together to identify potential further areas of impact investing. The local Investment Committees are fundamental to the transition by providing oversight of the asset managers across the Group. They also approve and oversee the application of investment policies which incorporate climate and sustainability related considerations.

Sustainability workstream working groups: these groups consist of our key sustainability leaders across all divisions for investments, operations and reporting. Progress is reported directly into the GSC. In addition, we have established a Transition Plan Steering Group to oversee and direct the production of our transition plan and delivery of the actions that will be identified.

Acquisitions: as part of the due diligence process, for potential acquisitions of entities, we assess the target company's approach to climate-related risks and consider the emissions of their operations and underlying assets. For potential acquisitions of books of business, we assess the CVaR and financed emissions of the assets.

STRATEGY

As highlighted above, we are already taking steps to embed sustainability, including the Group's approach to climate risk and decarbonisation, as a fundamental part of our strategy. Changes in the environment and the impacts of global warming could potentially affect how we achieve our strategic objectives either through the way we operate our businesses or through the returns to our customers and shareholders. We are committed to continuing to develop sustainability-informed investment and operational decision making across the Group.

Climate-related risks and opportunities

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

We have identified and assessed the impact of climate-related risks and opportunities on the Group's business, strategy and financial planning over short-, medium- and long-term time horizons. This process is based on the below framework, considering the materiality, time horizons and types of risk.

TIME HORIZON

Short term
up to 12 months – in line with budget setting process

Medium term
2 to 5 years – in line with our business planning and Own Risk and Solvency Assessment (ORSA) projection period

Longer term
6+ years – post business plan horizon

During the setting of the time horizon profile, we considered the useful life of the Group's assets and believe our definition takes this into account. The average duration of the wider Group's assets is between 5-10 years, but the Group is acquisitive and writes longer-term business for our insurance liabilities so the risk assessment needs to consider a longer time horizon also. The short-term period of 12 months aligns with the risk basis that underpins SII, and the medium term is aligned to our business planning period.

MATERIALITY

Our definition of materiality is as follows:

EcV
>£20m

Cash generation
>£3.5m

Reputational
National reputational event

Regulatory
Action involving penalty imposition (£0 threshold) and/or requirement for remediation leading to a restriction of activity

Other
For example, safety – high potential for an injury to an individual or several individuals.

The materiality levels of the Group are approved by the Board annually as part of the Principal Risk Definition report and consider a number of factors that are broader than purely financial indicators. Whilst this is largely risk focused, we have chosen to apply this materiality definition to opportunities as well. This is deemed to be an appropriate limit and is predicated on the Group risk assessment thresholds that are discussed and approved by the Board annually. We believe this is a reasonable disclosure level and would enable a user to appropriately assess our exposure to climate-related risks and opportunities.

TYPES OF RISK

Physical risks
Arise due to the direct impact of events such as heatwaves, flood, wildfire, storms, increased weather variability, and rising mean temperatures and sea levels.

Transition risks
Emerge from the process of change towards a low carbon economy such as: climate-related developments in policy and regulation; technological change (e.g. electric vehicles); a shift in consumer sentiment and social attitudes; and climate-related litigation against firms that fail to mitigate, adapt or disclose climate-related financial risks.

Likelihood
Likelihood is determined as low, medium or high.

Impact of climate-related risks and opportunities in the Group business strategy and financial planning

We produce a five-year Group business plan on an annual basis, and our climate and wider sustainability strategy is included into both operational and financial plans to reflect our immediate priorities, risks and longer-term ambition. This includes consideration of our products, investments, and our value chain in order to manage our climate risks and opportunities and meet our commitments. Sensitivities are also performed to assess the impacts of negative exposures to our assets. Becoming a sustainable Chesnara is a key part of the Group's strategy and our goal is for it to be considered and embedded in to all areas of the business.

We are also currently developing our first climate transition plan, which will be published later this year. Using the NZIF 2.0 framework to structure our actions, it will outline our initial plans on how we will tackle and report on the net zero transition. Delivering against our plans, targets and commitments will become a fundamental part of our business. We acknowledge that further plans will be required as more information, data and methodology becomes available.

STRATEGY (CONTINUED)

As part of our ongoing risk assessment, we monitor climate-related risks, and of those, four are deemed to be material. In 2024, we have consolidated the reputational risks we had in our 2023 disclosures into a broader risk around not meeting our stakeholder expectations which we believe presents a more holistic view of the risk that we are managing.

RISK

1. Not being able to fully assess and manage the climate risk exposure of our investment portfolio, as a result of data limitations, uncertainty and impacts from the current geopolitical situation; limited control or influence over investment decision making; insufficient resource or knowledge.

Climate change risk is identified as a principal risk, with the risk also being captured as a principal risk under investment and liquidity risk

Time horizon:
Medium term 2-5 years

Likelihood:
Medium

Potential impact (linking to financial statements)
Investment decision making impacts which could lead to a reduction in value of policyholder and shareholder assets held by the Group, directly impacting the balance sheet, Economic Value and solvency, as well as investment return or the fees generated on the management of those assets. This reduction in value could lead to stranded assets being held by the Group, further impacting valuation.

Inability to execute the Board's chosen strategy for climate change effectively or transitional risks occurring where exposures were not understood or where there is insufficient control or influence over the investment decision making.

How is the risk being managed, mitigated and addressed?
Utilising MSCI to provide groupwide ESG data analysis on our asset portfolio.

Engaging with our asset managers to understand their own plans and pathways.

Producing our transition plan which will outline our steps to decarbonise, including targets and actions.

Associated targets and metrics:
The % coverage of our asset look through data which is shown in our financed emissions data.

Physical or transition risk: Transition
Territory: Groupwide

2. Not meeting changing and evolving stakeholder expectations in relation to climate change. For example, through failure to meet our targets and commitments.

Climate change risk is identified as a principal risk, with this risk also being captured as a principal risk under operational and reputational risk

Time horizon:
Medium term 2-5 years in respect of our 2028 operational target net zero and longer-term 6+ years in respect of our financed emissions net zero target

Likelihood:
Medium

Potential impact (linking to financial statements)
Loss of customers, major suppliers and investors if we fail to meet our commitments and targets or provide inadequate disclosure around progress against them.

Reduction of the liquidity of our shares and impact to the market capitalisation of the Group.

How is the risk being managed, mitigated and addressed?
Engaging with stakeholders and providing clear and honest disclosure on our targets and commitments and where there are areas of challenge and uncertainty for those targets.

Committing time and resources to complete and publish a transition plan in 2025 which will outline our steps to decarbonise.

Associated targets and metrics:
Our net zero and interim targets, and associated metrics for our operational and financed emissions.

Physical or transition risk: Transition
Territory: Groupwide

STRATEGY (CONTINUED)

From the conclusion of our scenario analysis work, we have also expanded our previous inflationary risk to consider the wider cost uncertainty around transitioning and responding to climate change. More detail is provided below, considering the likely time horizon in which we expect the risk to manifest and how the risk is being managed, mitigated and addressed.

3. Not adequately anticipating the cost implications associated on our business, value chain and wider society of both: – **Taking action to address the risk of climate change including decarbonising and policy change;** – **Transition and physical risks resulting from a disorderly transition.** **Climate change risk is identified as a principal risk, with this risk also being captured as a principal risk under expense and market risk**	**Time horizon:** Medium term 2-5 years	**Likelihood:** High
Potential impact (linking to financial statements) Negative financial impact on the expense base and cost assumptions. Costs of disorderly transitioning could have an indirect impact to the valuation of our unit-linked assets i.e., through the fall of future charges, and a direct impact for non-linked assets.	**How is the risk being managed, mitigated and addressed?** Active monitoring of costs, upcoming regulations and performing sensitivities to manage our future cash flows. Conducting detailed scenario analysis to assess the financial impact of a disorderly transition. Publishing our first transition plan in 2025 which will outline our steps to decarbonise.	
Associated targets and metrics: Our net zero targets and associated metrics for our operational and financed emissions.	**Physical or transition risk:** Transition and physical **Territory:** Groupwide	

4. Litigation risk if we are seen not to have published enough information or taken enough action; are considered to have made unsubstantiated claims leading to a claim of 'greenwashing'; or are seen to have taken too much action relative to stakeholder expectations. **Climate change risk is identified as a principal risk, with this risk also being captured as a principal risk under reputational and regulatory risk**	**Time horizon:** Medium term 2-5 years	**Likelihood:** Medium
Potential impact (linking to financial statements) Litigation may lead to potential fines and payouts increasing the Group's liabilities and potentially damaging the Group's reputation.	**How is the risk being managed, mitigated and addressed?** Providing clear and honest disclosure on our work and areas of challenge and uncertainty. Proactive consideration of what we are reporting in our sustainability disclosures, ensuring the use of clear and consistent sustainability language. Detailed consideration of upcoming regulatory requirements.	
Associated targets and metrics: Number of complaints and threatened litigation regarding sustainability matters.	**Physical or transition risk:** Transition **Territory:** Groupwide	

For the first time, a separate climate risk report assessing the CVaR of our asset portfolio was presented to the Board and the conclusions were also included in the 2024 ORSA report. There are a number of risks that are not featured in the table above that one may consider to be potentially material for an insurer. For example, climate effects on morbidity or mortality. Climate scenario stress testing performed for the Group (detailed in the resilience section) concluded that climate effects on morbidity or mortality do not give rise to a material impact.

We have also considered climate-related physical risks; however, as we lease the majority of our office buildings and most of our staff would be able to work from home if workplaces were affected, we do not believe physical risks present a material impact to the operations of the Group.

STRATEGY (CONTINUED)

Using the same approach as for the risks, we have identified climate-related opportunities for the Group. The table below focuses on those that are deemed to be material as per the definition of materiality referenced earlier in the report.

OPPORTUNITIES

1. Investments: target enhanced returns and climate resilience of our investment portfolio through increased investment in aligned assets.	**Time horizon:** Longer term 6+ years	**Likelihood:** Medium
Potential impact (linking to financial statements) Increase in key metrics: cash generation and Economic Value.	**How is the opportunity being managed and implemented** Performing analysis of the CVaR of our investment portfolio to factor into investment decision making. Monitoring performance of our investment portfolio including aligned assets. Working with our asset managers to understand their transition to net zero. Developing our approach to positive solutions impact investment, including investing in climate solutions. At the end of 2024, we had £135m of assets invested in funds which meet our definition positive solutions.	
Associated targets and metrics: Amount invested in our Positive Solutions Framework (£m) and performance of our investment portfolio.		

2. Financing: attract a wider pool of debt and equity investors by demonstrating our commitment to climate change.	**Time horizon:** Medium term 2-5 years	**Likelihood:** High
Potential impact (linking to financial statements) Positive share price movements through access to increased options and potential for lower borrowing costs.	**How is the opportunity being managed, mitigated and addressed?** Publicly disclosing our targets, commitments and progress against the plans and engaging with external stakeholders to provide details. Engaging with and joining industry bodies to collectively engage and support action to address climate change. Ensuring sustainability is a high priority by embedding it into decision making at all levels.	
Associated targets and metrics: Our sustainability strategy and three commitments, including net zero targets and associated metrics.		

3. People: attract and retain the best talent through providing opportunities for people to make a big impact in a smaller organisation.	**Time horizon:** Medium term 2-5 years	**Likelihood:** Medium
Potential impact (linking to financial statements) Our people are the Group's biggest value creator, which translates into cash generation and Economic Value for the business.	**How is the opportunity being managed, mitigated and addressed?** Clearly defining and demonstrating our commitment to sustainability and helping to address climate change. Disclosing our training and development opportunities.	
Associated targets and metrics: Employee retention rate and survey feedback.		

STRATEGY (CONTINUED)

Our approach to decarbonisation

We understand that our best strategy to mitigate our climate risks and realise the opportunities is to actively manage our transition to become a net zero business. We frame this transition in line with the UN Sustainable Development Goals (SDGs), including 13. Climate Action.

To support the understanding of our approach, in line with the United Nations, we define net zero as cutting carbon emissions to a small amount of residual emissions that can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero in the atmosphere.

1 Decarbonise our investment portfolio

The emissions from our investment portfolio, captured as part of scope 3, category 15 reporting under the Greenhouse Gas (GHG) Protocol, represent the significant majority of our carbon footprint. We have currently set two targets for financed emissions:

1. Net zero for all emissions by 2050.
2. 50% intensity reduction by 2030 from our 2023 baseline figures in the scope 1 and 2 emissions for our listed equity and corporate fixed income investments which we are able to influence or control.

We will set further interim targets covering additional asset classes and time periods up to 2050.

For our targets, we have followed the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework (NZIF) and the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C (SR1.5), which states that in mitigation pathways with no or limited overshoot of 1.5°C, global net carbon emissions need to decline by between 41% and 58% from 2010 levels by 2030, reaching net zero around 2050.

As an asset owner, to reduce these emissions it is necessary to work with our asset managers to understand their own decarbonisation plans. We will also be working with partners and customers for those assets where we have less control or influence, for example those where policyholders self-select their own investments. We remain strongly committed to net zero by 2050 for all our financed emissions and so our targets will expand over time to include all asset classes.

There are a number of significant headwinds largely out of our control which will affect our ability to meet our targets, such as policyholder choices and asset manager progress. Therefore, as our transition plans are developed and refined and baseline data is further understood, we may naturally look to refine our targets at a later date to better reflect the position of the Group and the market. Our initial transition plan which will be published later this year, will include further detail on the steps we will take to meet our targets as well as challenges which may affect the Group's ability to implement the plan. Additional governance has been put in place to provide oversight for the development of the transition plan, including a cross-group steering committee to ensure there are appropriate review and approvals.

We have started to engage with some of our key asset managers, who collectively manage c60% of our assets under management. Initially, this is to gain an understanding of their own net zero plans and how our portfolios of assets fit in with those plans. During 2025, we will be further engaging and collaborating to assess if their strategy aligns with our decarbonisation pathway.

2 Decarbonise our operations and supply chain

The second element of our decarbonisation journey relates to our operations.

Though these emissions represent a small number in comparison to our financed emissions, they remain a priority and we remain committed to leading by example. The target section of the report explains further our planned approach, with further detail of our net zero targets to be communicated in our transition plan.

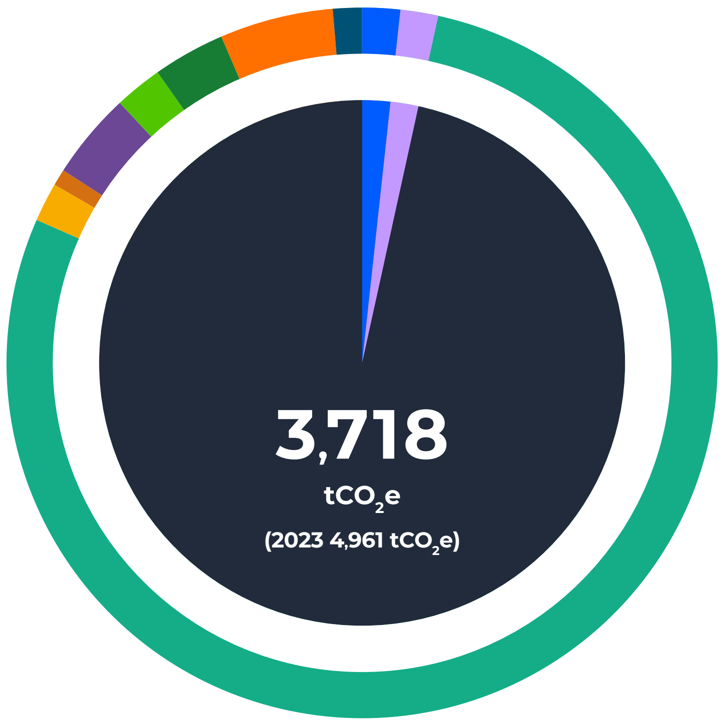
Chesnara's carbon footprint

Scope 1
1% **62** tCO_2e

Scope 2
2% **64** tCO_2e

Scope 3
97% **3,592** tCO_2e

		tCO_2e
77%	Purchased goods and services	2,907
2%	Capital goods	66
1%	Fuel- and energy-related activities	28
4%	Upstream transportation and distribution	147
2%	Waste generated in operations	81
4%	Business travel	122
5%	Employee commuting	192
2%	Upstream leased assets	49



97% of our operational emissions arise from scope 3 emissions, specifically purchased goods and services, which represent 77%. Methodology to calculate these emissions currently relies heavily on estimates and industry averages and so we have been working with Greenly, as our carbon accounting data provider, to enhance the accuracy of this data by bringing in supplier specific data where possible. This has led to a reduction of our scope 3.1 emissions. As this methodology evolves, we hope to see a reduction in intensity for those suppliers who are transitioning.

As with our asset managers, we have started conversations with our key suppliers, to understand their decarbonisation plans. We will be continuing to engage with our supply chain during 2025.

The UK business has also enhanced its supplier onboarding due diligence and annual attestation processes, bringing the Supplier Code of Conduct in line with the key principles of the United Nations Global Compact to ensure our suppliers uphold the same values, standards and commitments that we do.

3 Invest in positive solutions

Investing in 'positive solutions' means investing in assets, industries and organisations that will generate specific, measurable, social and/or environmental benefits in addition to financial returns. At the end of 2024, our Group held approximately £135m of investments in positive solutions, which we are looking to continue to increase in 2025.

Scenario analysis

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenario

Overview

During 2024, Chesnara completed an assessment to understand the resilience of our investment portfolio to climate risk. This was previously considered as part of the ORSA process, but a stand-alone assessment was performed this year to enhance our understanding of the risk faced by climate change. This analysis is also a key consideration in the development of the Group transition plan as this document will begin to consider how we mitigate the risks we, as a business, are facing as a result of climate change. The focus of our assessment was the Climate Value at Risk (CVaR) metric, which is a forward-looking measure of the potential impact of climate on Chesnara's portfolio of invested assets. CVaR includes an assessment of the following in relation to the companies in which we invest:

- **Physical risks:** This captures the risk of asset damage or business interruption as a direct consequence of extreme weather events or from sustained gradual changes in the weather. The physical risk assessment is dependent on the location in which the Company operates and the scenario under consideration.
- **Transition risks:** This estimates the cost of achieving the required reduction in emissions in the scenario under consideration. Transitional risk is dependent on the sector and location in which the Company operates in and the scenario under consideration.
- **Transition opportunities:** This estimates the potential benefits arising from the switch to low-carbon technologies. Transitional risk is dependent on company specific data and the scenario under consideration.

For this assessment, we have changed our approach to modelling climate risk from using the PRA's 2019 UK Insurance stress test scenarios to using a climate risk model provided by MSCI which uses data from the Network for Greening the Financial System (NGFS) scenarios. We made the decision to change our approach as the MSCI methodology is a significant step forward in terms of coverage, granularity and robustness of Chesnara's climate risk analysis compared to our previous approach. Both the methodology and data will continue to evolve over time reflecting the fact that the industry approach to modelling climate change is in its infancy and is continuing to develop.

Our climate risk assessment is based on the invested assets under management. The impact arising from non-invested assets and the liabilities are less material for Chesnara and hence have not been considered to date.

STRATEGY (CONTINUED)

Climate-related scenarios and key assumptions

The climate-related scenarios considered, and the key assumptions embedded within these scenarios, are summarised below:

MSCI scenario name	Underlying NGFS scenario	Physical risk – policy ambition	Transition risk	Technology change	Carbon dioxide removal	Regional policy variation
1.5°C Orderly	Net Zero 2050	1.4°C	Immediate and smooth	Fast change	Medium-high use	Medium variation
1.5°C Disorderly	Divergent Net Zero	1.4°C	Immediate but divergent across sectors	Fast change	Low-medium use	Medium variation
2°C Orderly	Below 2°C	1.6°C	Immediate and smooth	Fast change	Low-medium use	Medium variation
3°C NDC	NDC	2.6°C	NDC's	Slow change	Low use	Low variation

NDC = Nationally Determined Contributions

Timelines

The modelling of climate risk associated with bond holdings is based on the maturity date of the bond (i.e. it is assumed that the bond is held to maturity). The transitional risks and opportunities associated with equity holdings are modelled until 2050 with physical risks modelled until 2100. It is noted that this exceeds the duration of Chesnara's liabilities and hence Chesnara will realise the equity prior to this date. MSCI discounts the estimated impacts over the above timelines to produce a shock factor which is then applied to our portfolio of invested assets.

Limitations

As noted above, climate scenario analysis is still an evolving field and as such there are limitations in our approach. The key limitations are listed below and are common throughout the industry.

- It is assumed that the market has not already priced the effects of climate risks into market values of assets. In practice, it is likely that the market will have priced in an element of climate risk but the uncertainty in quantifying this means that this has not been allowed for.
- The analysis does not take into account future management actions in respect of the transition to net zero, i.e. it is based on the current assets held and it does not reflect any future switches to low carbon assets.
- The modelling of physical risk only considers the direct physical risks (i.e. the direct physical damage to a company's assets because of climate change or the costs associated with interruption to business operations as a direct consequence of an extreme weather event or from long-term gradual changes in the weather). The wider impacts of indirect physical risks (i.e. the impacts on the supply chain of a company as a result of climate change) are not currently considered.
- The impacts of tipping points are not currently considered. These are thresholds which, once crossed, will trigger irreversible changes such as loss of ice sheets, glaciers and rainforest. Given the considerable uncertainty around when a tipping point may be crossed and the consequences of crossing tipping points, the impacts of these are not included in the physical risk modelling.

Key findings

The key findings observed from the scenario analysis are summarised below:

- 1.5°C scenarios: In the two 1.5°C scenarios the estimated impact of physical risk is the same, reflecting the same assumed level of warming in both scenarios. Transitional risks are higher in the disorderly scenario reflecting the delayed or divergent implementation of low carbon policies. The transitional risks are partially offset by the transitional opportunities which are expected to emerge as a result of increased low-carbon technologies.
- 2.0°C and 3.0°C scenarios: In these scenarios the expected physical risk increases as expected. However, we note that whilst physical risk is thought to be underestimated in all scenarios the degree of underestimation is expected to be higher in these scenarios. Transitional risks and opportunities are significantly lower in these scenarios reflecting the introduction of fewer low-carbon policies.

Summary

Climate risk is a material financial risk factor and as such we have made commitments to transition to net zero by 2050. The new approach has a larger Own Funds stress impact than in previous years, and therefore the impact is potentially greater in the longer term than has previously been assessed. We are currently developing our first transition plan and its implementation will be fundamental to helping us to mitigate climate-related risks. The transition plan will map the journey, and thereafter monitor progress, against the net zero commitments, whilst acknowledging the areas of uncertainty. Furthermore, we are taking steps to embed climate risk into business as usual and as part of key decision making processes, in particular in the investment decision making process. Our climate scenario analysis will continue to be developed and enhanced to monitor our climate-related exposure and to identify management actions to mitigate against these.

RISK MANAGEMENT

Risk and solvency management are at the heart of Chesnara's robust Governance Framework.

a) Describe the organisation's processes for identifying and assessing climate-related risks and
b) Describe the organisation's processes for managing climate-related risks

PROCESSES FOR IDENTIFYING, ASSESSING AND MANAGING CLIMATE-RELATED RISKS

A high-level summary of Chesnara's Risk Management Framework is below:

RISK MANAGEMENT POLICY

Chesnara's **Risk Management Policy** which sets out the framework of principles and practices, policies and strategies for the Group's Risk Management System.

RISK MANAGEMENT SYSTEM

The **Risk Management System** supports the identification, assessment and reporting of risks.

GROUP RISK MANAGEMENT FRAMEWORK

The **Group Risk Management Framework** is designed to embed effective risk control systems with a holistic and transparent approach to risk identification, assessment, management, monitoring and reporting. The definition and scope of each principal risk category is based on a set of strategic and operating principles/tolerance limits.

GROUP'S RISK APPETITE

The **Group's risk appetite** reflects the Chesnara Board's view on the amount of risk the Group is willing to take and sets boundaries to determine when there is too much or too little risk.

In addition, Chesnara's Investment Policy contains investment criteria which are monitored by the Investment Committee.

The Group Chief Risk Officer is responsible for maintaining the overall Risk Management Framework. The CEOs for each business unit are required to ensure that the framework is fully integrated into the business model and decision making processes. Each of our divisions is required to apply the Risk Management Policy and operate within the limits set by the risk appetite. Each business unit is responsible for identifying risks which might create, enhance, accelerate, prevent, hinder, degrade or delay the achievement of the Group's objectives, together with the sources of risks, areas of impact, events, and their causes and potential consequences. These risks are recorded in the risk register and evaluated based on the likelihood of occurrence and severity of impact. Depending upon the nature and impact of the risk, the risk is either accepted, avoided, managed or transferred. Climate-related risks and opportunities are identified and evaluated according to this framework by the respective management teams in our business units.

Management teams keep up to date through the monitoring and assessment of emerging risks, reviewed by the executive teams on a quarterly basis.

Climate change risk has been included as its own principal risk (PR11) for the first time to reflect the exposure to adverse consequences of the physical and transitional risks arising from climate change. We also consider climate change to be a cross-cutting risk, that manifests through other existing risk types, which includes equity and credit etc (PR1 – Investment and liquidity risk) and also regulatory risk (PR2 – Regulatory change risk) given the level of ongoing change. The Group is also exposed to strategic and reputational risks (PR9 – Reputational risk) arising from its action or inaction in response to climate change.

With regards to the sector specific guidance, we believe the impact of: physical risks from changing frequencies and intensities of weather-related perils; transition risks resulting from a reduction in insurable interest due to a decline in value and transition risks of changing energy costs would not be material and therefore not disclosed within the TCFD report as material risks. Chesnara has developed an environmental, social and governance (ESG) Policy Statement for the Group, in which it recognises the importance of understanding climate change risk in its operations and its investments and continued monitoring of associated risks.

Chesnara believes its businesses that hold investments (insurance companies and investment companies) should consider sustainability and implications for climate change in their investment policies. It expects each company to consider the implications of these for its business and investments and document its position. Chesnara's businesses have adopted, either directly or via their respective fund managers, the six UN Principles of Responsible Investment with the aim to continue to invest responsibly with sustainability considerations in mind and to provide a choice of sustainable funds to customers, e.g. green investments which aim to solve climate issues, or which focus on companies that invest in improving health.

The 2024 approach to modelling climate risk has changed using the PRA stress tests as part of the ORSA process to using a climate risk model provided by MSCI. This is considered to be a significant step forward in terms of the coverage, granularity and robustness of Chesnara's climate risk analysis: however, it is still subject to a number of limitations which will evolve over time.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Integration of processes for identifying, assessing and managing climate-related risks

An integral part of Chesnara's governance and Risk Management Framework is compliance with the Prudential Solvency II Regulations to perform the ORSA on an annual basis. The Chesnara Board is responsible for the overall design of the ORSA process including its annual review. Climate-related risks are considered within the ORSA process and the impact of material risks upon the solvency and resilience of the business is documented. The views of the Actuarial function holder and any recommendations or prior feedback from the regulator are considered when conducting the assessment at business unit level. Conclusions drawn from the risk and solvency assessment are reported to the respective regulators by each of our businesses every year. The Group Sustainability Committee also reviews the climate-related risk and opportunities and climate scenario analysis, with overall responsibility for overseeing the programme of work across the Group.

Each business unit provides a forward-looking perspective on risks that are emerging quarterly to its own Audit & Risk Committee and these are reviewed by the Group Audit & Risk Committee quarterly and the Group Senior Leadership Team monthly. A summary of principal risks and emerging risks is also provided quarterly to the Chesnara Board. From a climate change perspective this incorporates consideration of the content of relevant publications and guidance in the context of the Chesnara risk landscape, such as the reports published by the IPCC on the physical climate change risks to the environment. Similarly, our management teams evaluate the possible effects of transition risk by keeping abreast of relevant policy and legal developments, technological advancements, changes in market risk due to demand shifts and any legal and reputational risk exposure. Amongst other matters, business performance and risk management are discussed at the Senior Leadership Team monthly meeting.

Chesnara's approach to assessing financial risk is to identify and assess factors that could potentially threaten the continued successful delivery of the anticipated stakeholder outcomes over a three-year time horizon, including risks to the business model and strategy. The Chesnara Board requires the management teams to ensure a good understanding of the solvency position at any point in time. In Q2 2024 a series of stress and scenario tests were selected for the ORSA with the requirement to follow the testing principles set out in the Group Risk Management System Policy. As well as current known risks, the stresses and scenarios took account of forward-looking and emerging risks.

These selected stresses and scenarios along with the rationale were reviewed and approved by the Chesnara board. The tests conducted covered equity asset values, yields and credit spreads, expense inflation, mass lapse and adverse operational experience. The ORSA also included the output of the climate risk report, and it will be determined how this will be incorporated going forwards. Performance against the business plans as well as known and emerging risks and opportunities are discussed at quarterly business review meetings at entity and group level. Climate-related risk impacts and opportunities are considered at these meetings.

METRICS AND TARGETS

The Metrics and Targets section also addresses the requirements within the Streamlined Energy & Carbon Reporting (SECR) Framework including reporting on energy usage, GHG emissions, methodology used to make the calculations, intensity ratios and a description of the efforts taken to improve the Group's energy efficiency during the financial year. To support the understanding of our approach, we define net zero as cutting carbon emissions to a small amount of residual emissions that can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero in the atmosphere.

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Financed emissions

We have published our initial interim and long-term net zero targets for our financed emissions which represent the most significant part of our carbon footprint. We baselined our emissions using 2023 data and as further data becomes available and methodology develops, we will continue to assess our baselines and our targets.

TARGETS

We are committed to decarbonising our investment portfolio and have set the following climate targets to achieve this:

2030

50% intensity reduction

in the scope 1 and 2 emissions for our listed equity and corporate fixed income investments which we are able to influence or control

2050

Net zero all emissions

To meet our commitments, we will report on the following **metrics** to monitor performance against our targets:

1. Total financed carbon emissions (absolute emissions) (tCO_2e)

This shows our absolute greenhouse gas emissions (GHG) and allows us to establish the emissions baseline of our portfolio by measuring financed scope 1, 2 and 3 emissions.

2. Financed carbon emissions (absolute emissions normalised by $M invested) ($tCO_2e$)

This shows the total carbon financed emissions of a portfolio normalised by the market value of the portfolio. The metric enables us to compare the emissions of different portfolios.

3. Weighted Average Carbon Intensity (WACI)

a) WACI Corporate
This shows our exposure to carbon intensive companies **(tCO_2e by $M sales)**

b) WACI Sovereign
This shows our exposure to a country's transitional risks and physical and economic vulnerability to climate change **(tCO_2e by $M GDP nominal)**

METRICS AND TARGETS (CONTINUED)

2024 performance
The below tables summarise our 2024 performance against our baseline financed emissions.

FINANCED EMISSIONS (tCO_2e)	Scope 1 and 2			Scope 3		
	2024	**2023 baseline**	**Movement**	**2024**	**2023 baseline**	**Movement**
Total financed carbon emissions (absolute emissions)	**515,298**	533,073	(3%)	**4,764,459**	4,345,991	10%
Financed carbon emissions (normalised by $M invested)	**34**	39	(13%)	**313**	316	(1%)
% coverage	**59%**	58%	1%	**59%**	56%	3%

WEIGHTED AVERAGE CARBON INTENSITY (WACI)	Corporate Constituents (tCO_2e/$M sales)						Sovereign Constituents (tCO_2e/$M GBP nominal)		
	Scope 1 and 2			Scope 3			GHG intensity		
	2024	**2023 baseline**	**Movement**	**2024**	**2023 baseline**	**Movement**	**2024**	**2023 baseline**	**Movement**
Chesnara Group	69	72	(5%)	**645**	654	(1%)	**221**	207	7%
% coverage	63%	62%	1%	**63%**	59%	4%	**9%**	12%	(2%)

Our 2024 calculations, which are based on the data at the end of September 2024, show we made good progress against our targets. For the assets classes for which emissions can be calculated, we saw the scope 1 and 2 normalised emissions[1] of our total portfolio reduce by 13%. The investments included in our 2030 targets represent a majority of the assets within this total and so we are on track to achieve our target. Our scope 3 normalised emissions also dropped by 1% and whilst we saw progress in reducing our absolute[2] scope 1 & 2 emissions by 3%, we did increase our scope 3 emissions by 10%. The difference between these two metrics is partly explained by the increase of our in-scope assets under management by circa 5% as a result of acquisition activity meaning that we have more assets for which we are reporting emissions.

Our WACI corporate[3] exposure to carbon intensive companies decreased by 5% (scope 1 & 2) and 1% (scope 3); however, our WACI sovereign exposure[4] has increased by 7%. It is however important to note that data coverage is very low for our sovereign bond investments (9%) which is likely to lead to an increase in the period-on-period volatility of our results for this asset class. We expect this data coverage to increase over time which will help address this volatility.

When opportunities have arisen to rebalance our portfolios, we have been careful to integrate our financed emissions objectives into our decision making process. Analysis shows that redemptions within our portfolios have also contributed to the change in our financed emissions figures. Of course, changes in data coverage and any updates that our investee companies have made in the reporting of their own financed emissions have all played a part in the changes we see.

Our climate data comes from an external provider and just as we baseline and monitor our financed emissions figures, we do the same for data coverage. Except for WACI sovereign, the data coverage has improved across all our measures this year. We are eager that this continues to improve and so we are working with our external data provider to identify any assets that are not covered to help ensure that they are added to coverage within expected timeframes. This will allow us to increase the accuracy of our financed emissions and exposures.

1. The absolute greenhouse gas emissions associated with an asset class or portfolio divided by the loan and investment volume (expressed in tCO_2e/$M invested)
2. The absolute greenhouse gas emissions associated with an asset class or portfolio (expressed in tCO_2e)
3. Exposure to carbon intensive companies (expressed in tCO_2e/$M sales)
4. A country's exposure to transitional risk and physical and economic vulnerability to climate change (expressed in tCO_2e/$M GDP nominal)

METRICS AND TARGETS (CONTINUED)

Positive solutions

As explained in the strategy section, we will continue to commit to assessing and investing in positive solutions, by intentionally directing capital into activities that deliver or enable the achievement of the UN Sustainable Development Goals. We report annually on our progress against this commitment, detailing the level of investments held. These activities will be monitored by the GSC and reported annually to the Board.

Targets and metrics: the amount of investments (£m) we currently invest in our Positive Solutions Framework is the key metric we currently report and monitor, and at the end of 2024 we had £135m (2023: £80m). We are looking to set medium-term targets for our positive solution investments, and include additional metrics to monitor the impact of the investments.

Operational emissions

Since setting our initial 2028 target in March 2022, we have spent time collating and analysing our data, broadening the emissions captured by our calculations and reporting, engaging with key suppliers and working with members across the Group to gain valuable insights to inform our actions. From this work and the fact that the operational emissions within our control represent a materially insignificant amount of our total emissions, we recognise the need to adjust the Group's operational net zero ambitions. This does not mean we are scaling back our efforts; instead, we are revising our focus to make sure we have the biggest impact we can with the control we have. We want our goals to be ambitious, meaningful and reflect the urgency of the climate crisis, yet we must do it in a way that doesn't negatively impact livelihoods, wellbeing or inclusion.

Later this year, we will publish our first transition plan and in it we will communicate how and when we plan to be operational net zero for all of our emissions.

To monitor our performance against our targets and intensity, we report on the following metrics:

1

Absolute emissions tCO_2e (scope 1, 2 and 3)

2

Operational emissions per FTE tCO_2e (including and excluding scope 3.1)

Other metrics we report and monitor include the Group's energy consumption and water usage, which is detailed on page 20.

METRICS AND TARGETS (CONTINUED)

2024 performance

The below table summarise our 2024 performance against our baseline operational emissions.

		OPERATIONAL EMISSIONS (tCO_2e)					
		2024			2023 baseline		
		UK & Offshore	Global (excl UK & Offshore)	Total	UK & Offshore	Global (excl UK & Offshore)	Total
Scope 1	Combustion of fuel and operation of facilities	2	60	**62**	18	65	**83**
Scope 2	Electricity, heat, steam and cooling purchased for own use (location based)	9	55	**64**	10	87	**97**
	Electricity, heat, steam and cooling purchased for own use (market based)	2	55	**57**	–	–	**–**
	Scope 1 and 2 emissions (location based)	11	115	**126**	28	152	**180**
Scope 3	Purchased goods and services	1,165	1,742	**2,907**	1,906	2,129	**4,035**
	Capital goods	29	37	**66**	28	69	**97**
	Fuel- and energy-related activities not included in scope 1 or scope 2	3	25	**28**	9	45	**54**
	Upstream transportation and distribution	32	115	**147**	9	215	**224**
	Waste generated in operations	73	8	**81**	24	8	**32**
	Emissions from business travel	72	50	**122**	52	131	**183**
	Emissions from commuting	45	147	**192**	26	83	**109**
	Upstream leased assets	40	9	**49**	8	40	**48**
	Total scope 1, 2 and 3 emissions (location based)	1,470	2,248	**3,718**	2,090	2,871	**4,961**
	Carbon offset	(305)	(506)	**(811)**	(184)	(742)	**(926)**
	Total net emissions	1,165	1,742	**2,907**	1,906	2,129	**4,035**
	Company's chosen intensity measurement:						
	TCO_2e per FTE	14.2073	8.2344	**10.4772**	19.2982	10.3692	**12.8660**
	TCO_2e per FTE (less scope 3.1 emissions)	3.7195	1.8534	**2.2845**	1.6990	2.6595	**2.3909**

The 2024 results show a 25% reduction to our 2023 baseline. This is a movement in the right direction. Whilst this movement is in part down to data and methodology changes, we are pleased to be able to point to actions we have taken across the Group to reduce our emissions:

- We have reduced our gas heating consumption (scope 1.1), through both moving our Bristol colleagues to a smaller office and closing off parts of Scildon's office which are not occupied during certain days of the week.
- The Group has also been focusing on digitalisation, particularly Waard through its online customer portal 'Mijn Waard', as an endeavour to reduce postal emissions (scope 3.4).
- We have been making a conscious effort to reduce unnecessary travel, and choosing sustainable options where available, leading to a reduction in the number of domestic flights and car usage since 2023.

The reduction in purchased goods and services (scope 3.1) emissions is due to an enhancement of the data used in the calculations. Through our carbon accounting partner's database, we have been able to use an increased number of emission factors specific to suppliers to calculate the associated emissions instead of industry averages.

Not all types of emissions have reduced. For example, we have seen emissions from commuting increase during the year, as a result of higher office attendance across our businesses.
This demonstrates some of the challenges we have with reducing emissions but we continue to consider methods of encouraging and incentivising sustainable travel, including our employee electric vehicle salary sacrifice scheme in the UK.

METRICS AND TARGETS (CONTINUED)

Carbon offsetting

We remain focused on reducing the carbon emissions associated with our operations and investments. We also continue to consider the important yet complex role offsetting can play in the global transition to net zero.

For 2024, we have again offset our operational emissions, excluding scope 3.1 purchased goods and services, of 811 tonnes of CO2e by supporting several verified projects in alternative energy and water safety, as well as planting 811 trees in the UK. These are high quality carbon reduction projects that comply with international verification standards and are amongst Carbon Footprint Ltd's offset projections portfolio. We will continue to assess our approach to offsetting, including considering partnerships with organisations supporting nature-based solutions.

Energy usage

Energy consumption in the Group is reported on an actual basis where the records are kept in the business (scope 2 – office use and scope 3.6 – business travel) with employee survey responses used to obtain information for home working and commuting data. These are then converted to emission measures using standard conversion factors based on Greenly's assumptions and calculation engine which is in line with the GHG protocol methodology. Our energy and water consumption over the last two years is shown in the following table:

		UK & Offshore	Global (exc UK & Offshore)	Total
2024	Energy consumption (KwH '000)	360	1,298	**1,658**
	Water usage (m^3)*	289	1,815	**2,104**
2023	Energy consumption (KwH '000)	382	1,301	**1,684**
	Water usage (m^3)*	163	1,526	**1,689**

*Excludes Waard since water usage is incorporated in the office service charge. The increase in water usage is due to higher office attendance in 2024.

The Group encourages all employees to take reasonable steps to reduce waste, and to re-use and recycle office materials, and our sustainability statement reiterates our commitment to becoming a sustainable group. In addition to this, we use a mixture of renewable energy across the business, including a 100% renewable energy contract in the Preston office.

With regard to the sector specific guidance requiring insurance companies to provide aggregated risk exposure to weather-related catastrophes of their property business by relevant jurisdiction; the extent to which their insurance underwriting activities are aligned with a well below 2°C scenario; and also indicate which insurance underwriting activities are included – this has been considered and the impact is either immaterial or not applicable to the business, and therefore, no disclosure has been made.

To increase energy efficiency, management in each of our business units takes practical steps to minimise the effect of our operations on the environment and our workforce is encouraged to conserve energy, avoid unnecessary travel, use video conferencing, and minimise waste. In 2024, we delivered sustainability training to all employees to raise awareness of the impact we have on climate change, and how energy usage contributes to this. We also finalised our UK Expense Policy which outlines the need to consider the business need to travel and the most sustainable option to do this. Overseas, one of our Dutch entities has been focusing on closing parts of the office that are not in use on certain days.

Chesnara is fully committed to complying with the Energy Saving Opportunity Scheme Regulations 2014 (ESOS). The UK's energy consumption in the form of lighting, heating and fuel usage is assessed by an independent company every four years, with the latest assessment completed in 2024. An action plan has been created and submitted based on the recommendations provided.

There are three (2023: five) Company-leased vehicles in total across the Group which are used primarily for commuting and not business-related activities; this is in addition to eight Company-owned vehicles. All of the eleven vehicles are either hybrid or electric.

METHODOLOGY, DATA & ASSUMPTIONS

Operational emissions: Greenly has detailed methodology for each category and we can interrogate the Group's accounting data to generate the results. Greenly has integrated thousands of emission factors from Government publications and Life Cycle Assessment (LCA) dashboards as reliable sources of data. No further data and assumptions have been included for the calculation of non-financed emissions outside of the use of the Greenly platform. For further informations on Greenly and its methodology, please visit **www.greenly.earth/en-gb**.

Financed emissions: For more information on the MSCI methodology, please visit **www.msci.com**. Due to the timing of the publication of the report, we have used data as at 30/9/2024 to calculate our 2024 financed emissions and therefore there is a three month lag to our reporting. We acknowledge that this is not in line with PCAF guidance, however, we believe this will not result in a material difference to the results and allows us to perform and publish more in depth analysis of change each year.

The performance of climate-related disclosures requires the application of a number of key judgements, assumptions and estimates to be made, in particular, for the calculation of emissions and forming an assessment of the climate scenario analysis. The methodology relies on the quality of the underlying data used, which is constantly evolving and changing and therefore is an inherent limitation. As a result, we expect that certain disclosures are likely to be amended in the future and should be treated with caution.

Intensity measurements

Our operational emission intensity measurements are ratios of operational emissions against the number of FTE staff, calculated as:

1. Operational emissions per FTE = total non-financed emissions (scope 1, 2 & 3.1-3.8 tCO_2e)/number of average FTE staff in the year.
2. Operational emissions (less scope 3.1 emissions) per FTE = non-financed emissions as defined above (less scope 3.1 emissions)/number of average FTE staff in the year.

We believe these are appropriate measures, given a large proportion of the GHG emission categories are employee-related including commuting, business travel and waste. As supplier purchases (scope 3.1) are not directly correlated with the number of employees we have also chosen to disclose the FTE ratio without these emissions to reduce the impact of increased spend on goods and services.

METRICS AND TARGETS (CONTINUED)

We have also determined appropriate intensity measures for financed emissions (scope 3.15), as explained in detail on page 17, being:

1. **Total financed carbon emissions (absolute emissions) tCO_2e** – This shows our absolute greenhouse gas emissions (GHG) and allows us to establish the emissions baseline of our portfolio by measuring financed emissions.
2. **Financed carbon emissions (absolute tCO_2e emissions normalised by \$M invested)** – This enables us to compare the emissions of different portfolios. This shows the total carbon financed emissions of a portfolio normalised by the market value of the portfolio.
3. **Weighted Average Carbon Intensity (WACI) tCO_2e/\$M revenue** – This enables us to understand our exposure to carbon intensive companies within our portfolio:
   - WACI Sovereign – a country's exposure to transitional risk and physical and economic vulnerability to climate change (tCO_2e by \$M GDP nominal).
   - WACI Corporate – our exposure to carbon intensive companies (tCO_2e by \$M sales).

   We hope that this combination of metrics will show the relative and absolute performance of our decarbonisation activities.

BASIS OF PREPARATION

The table below details the key assumptions and methods of calculation by scope:

Scope 1	The emissions that fall under the category of scope 1 for the Group, which is activities controlled by the organisation that release emissions into the atmosphere such as from combustion on owned controlled boilers and furnaces. The Group's emissions generated from this scope are those from heating the Bristol and Hilversum office (scope 1.1), and business travel for owned or long-term leased vehicles (scope 1.2).
Scope 2	The emissions that fall within this category are related to the energy usage for the Group's offices. This excludes the usage of the outsourcers as they do not work exclusively for the Group and therefore, we have not been able to estimate the impact.

The 15 disclosure categories published under the GHG Protocol for scope 3 emissions have been considered, and the Greenly platform has enabled us to analyse accounting data and additional activity data to increase the number of scope 3 disclosure categories for our baseline results. Greenly uses scientifically verified databases to measure emissions is in line with the Greenhouse Gas Protocol or Ademe methodology. A summary of disclosure categories included and the calculation process is shown below. Only the relevant categories have been detailed.

Scope 3.1	**Purchased goods and services:** This is all upstream (cradle-to-gate) emissions of purchased goods and services. Carbon emission factors have been allocated to each supplier based on either similar companies based or using supplier specific data where possible. The spend in the year on goods and services has been converted by this factor to calculate the associated emissions.
Scope 3.2	**Capital goods:** This is the upstream emissions relating to purchases of IT equipment in the year where the emissions have been computed on the assumption of averaging emissions data for each product type.
Scope 3.3	**Fuel and energy-related activities not included in scope 1 or scope 2:** This category consists of power and owned car business travel upstream emissions and has been calculated on the assumption of using electricity coefficients and fuel consumption conversion factors.
Scope 3.4	**Upstream transportation and distribution:** This category consists of emissions generated from postage. The emissions have been calculated by taking expense accounting data relating to postage and multiplying it by an emission factor based on location.
Scope 3.5	**Waste generated in operations:** These emissions relate to office and general waste. Office waste for each building has been calculated using the average GHG emissions per employee equal to 27.95kgCO^2e/year in the EU and 94.35kgCO^2e/year in the UK. General waste is calculated based on accounting data with emission factors based on average emissions from the collection, sorting and processing of waste.
Scope 3.6	**Emissions from business travel:** Business travel emissions have been calculated based on a combination of both activity and accounting data and includes transport, hotels, conferences and parking. Emission factors have been calculated using the Ademe Carbone database for transport and average emission ratios based on location for other travel related costs.
Scope 3.7	**Emissions from commuting:** These emissions are generated from employee commuting and heating costs from remote working. This has been calculated using employee surveys generated by Greenly completed across the group.
Scope 3.8	**Upstream leased assets:** This category consists of emissions from leased vehicles in the year calculated based on accounting data with emission factors allocated to the spend based on average emissions for each location.
Scope 3.15	**Investments (financed emissions):** This category includes scope 3 emissions associated with investments in the year, not already included in scope 1 or scope 2 which has been calculated using MSCI methodology. Note that given the significance of these emissions they have been presented in a separate table on page 17. Total financed emissions and financed emissions are calculated based on corporate bonds and listed equity for which we have the required data. The results are extrapolated to estimate the emissions for the portfolio (including sovereign debt and assets for which we do not have the required data). This assumes that the sovereign assets and the investments for which data isn't currently available have the same emissions profiles as those included in the data coverage percentage. As data availability increases for those investments not currently included, any variances in their emissions profiles will result in a difference to the total financed emissions and financed emissions totals. Currently not included within the calculations for the portfolio are structured notes, collateralised securities, cash and deposits, mortgages and loans, and property.

The Group does not engage in activities linked to these scope categories: 1.3 physical or chemical processing, 2.2 steam, heat and cooling indirect emissions, 3.9 downstream transportation and distribution, 3.10 processing of sold products, 3.11 use of sold products, 3.12 end-of-life treatment of sold products, 3.13 downstream leased assets and 3.14 franchises.

We measure and report greenhouse gas emissions from our operations in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Defra Carbon Trust conversion factors, as well as the disclosure requirements in Part 7 of the Companies Act 2006.

Greenly has detailed methodology for each category and can interrogate the Group's accounting data to generate the results. Greenly have integrated thousands of emission factors from Government publications and LCA dashboards as reliable sources of data. No further data and assumptions have been included for the calculation of non-financed emissions outside of the use of the Greenly platform. For further information on Greenly and its methodology, please visit www.greenly.earth/en-gb

For more information on MSCI and their methodology which has been used for the calculation of scope 3.15 financed emissions, please visit: Total Portfolio Footprinting - MSCI

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Cautionary statement and forward-looking statements
This document should be read in conjunction with the other documents distributed by Chesnara through the Regulatory News Service. This document contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements with respect to certain of the plans and current expectations relating to the future financial condition, business performance, results, strategy and/or objectives (including, without limitation, climate-related plans and goals) of Chesnara plc.

Statements containing the words 'believes', intends', 'will', 'expects', plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Chesnara plc including, amongst other things, UK domestic, Swedish domestic, Dutch domestic and global economic, political, social, environmental and business conditions, market-related risks such as fluctuations in interest rates, currency exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Chesnara plc and its subsidiaries operate.

As a result, Chesnara plc's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

No representation is made with regard to forward-looking statements, including that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this document. Chesnara undertakes no obligation to update any of the forward-looking statements contained within this document or any other forward-looking statements we make. Forward-looking statements in this report are current only as of the date on which such statements are made.

The climate metrics used in this document should be treated with special caution, as they are more uncertain than, for example, historical financial information and given the wider uncertainty around the evolution and impact of climate change. Climate metrics include estimates of historical emissions and historical climate change and forward-looking climate metrics (such as ambitions, targets, climate scenarios and climate projections and forecasts). Our understanding of climate change and its impact continue to evolve. Accordingly, both historical and forward-looking climate metrics are inherently uncertain and Chesnara expects that certain climate disclosures made in this document are likely to be amended, updated, recalculated or restated in the future.

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