

tanDEM

TASK FORCE ON  
**CLIMATE-RELATED**  
FINANCIAL DISCLOSURES  
**REPORT (TCFD)**

2022



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## Overview

We're Tandem. We're building a digital bank for a greener future, providing hard working people across the UK with sustainable ways to save, borrow and spend. We help our customers enjoy a more affordable lifestyle while reducing their carbon footprint.

We recognise and understand the important role that financial institutions play in the transition to a low-carbon, sustainable economy. As part of our mission of 'banking for a green future', we support our customers with greener choices, through our lending and our products. This goal has remained our priority in 2022. We have been working hard to create a coherent, purpose-led strategy that will help our customers transition to a lower carbon lifestyle.

We are pleased to publish our first TCFD Report which details our efforts as we focused on introducing data collection processes to establish our baseline year and improving our understanding of the impact associated with climate change. We have recently acquired Allium and Oplo and are integrating these exciting businesses into the Tandem way of working. We plan to incorporate climate-related considerations into existing processes in 2023.

This report shows that for Tandem:

- Some of our products are robust in terms of climate change risk because they will enable customers to reduce their carbon footprint;
- The direct risks to our business are small because we're a digital bank with a small footprint;
- We've calculated our carbon footprint and because we invest in domestic energy solutions, we have relatively high Scope 3 (indirect) emissions. We have chosen to disclose these emissions as, although gas boilers do produce greenhouse gas emissions, new boilers with improved efficiencies actually reduce our customers' carbon footprint; and,
- We've made some good steps on the journey of embedding climate change into the way we run our business.

This, our first TCFD Report, will help Tandem to enable our customers to save a little greener, borrow a little greener and spend a little greener



Executive Statement



Throughout 2022 Tandem has made significant progress on its mission. The transition to low carbon economy is underway and coupled with the cost-of-living crisis, consumers are transitioning to more affordable and sustainable solutions for their homes, their transport, and their lifestyles.

The green transition is an enormous opportunity for Tandem to support consumers across the UK, retrofit their homes, change their transport and adapt their lifestyles. As a leading digital bank, we are uniquely embedded in the UK's digital infrastructure and are connecting consumers to education, information, green retailers and funding through our app-based interface, making the complex, simple and green choices easy from the familiarity of your phone.

In 2022 Tandem completed a significant re-brand of the Group with a fresh new look that aligns to our strapline "Banking for a greener future" and the launch of Tandem Marketplace, our first step in making greener choices easy.

We recognised climate change as a Principal Risk in 2022 and are proud to be publishing this voluntary Task Force on Climate-Related Financial Disclosures (TCFD) report to demonstrate how we are responding to the risks and opportunities identified.

We have engaged external consultants to help us on our journey to develop our environment, social and governance (ESG) strategy and climate risk framework. We have collected our scope 3 data to give a full picture of our carbon footprint and are using that data to determine our net-zero targets.

We look forward to reporting back on our progress in 2023.

Alex Mollart  
Chief Executive Officer



Alex Mollart  
Chief Executive Officer  
Tandem Bank

Overview

About the TCFD

The TCFD is a framework for assessing and reporting on climate-related risks and opportunities and assessing their impact on a company. The aim is to ensure companies are providing consistent, comparable information as required by investors in order to assess and price climate risks. This should ultimately help to guide the flow of investment towards overcoming the challenges of climate change.

The intention is for the TCFD recommendations to be integrated into existing business processes. Therefore, they are grouped under four areas: governance; strategy; risk management; and metrics and targets. As companies develop in their TCFD journey, these recommendations are expected to become an integral part of the business management framework. Through this report, we have explained how we are embedding the TCFD guidelines within our business processes.

We have voluntarily complied with the TCFD framework this year to demonstrate our commitment to climate change. In Q1 2022, the Risk Committee and Board added climate risk as a Principal Risk. The TCFD recommendations have guided us in assessing these potential risks and opportunities in more detail, allowing us to respond appropriately. It also provides a structure for reporting on our current position and future plans.

Tandem is committed to helping people choose a greener lifestyle. Part of this is ensuring customers have all the information they need to make informed decisions. Therefore, we must understand what our customers and other stakeholders will need as we transition to a low-carbon economy. We believe that using the TCFD framework along with a range of tools will lead to a more sustainable and responsible business.



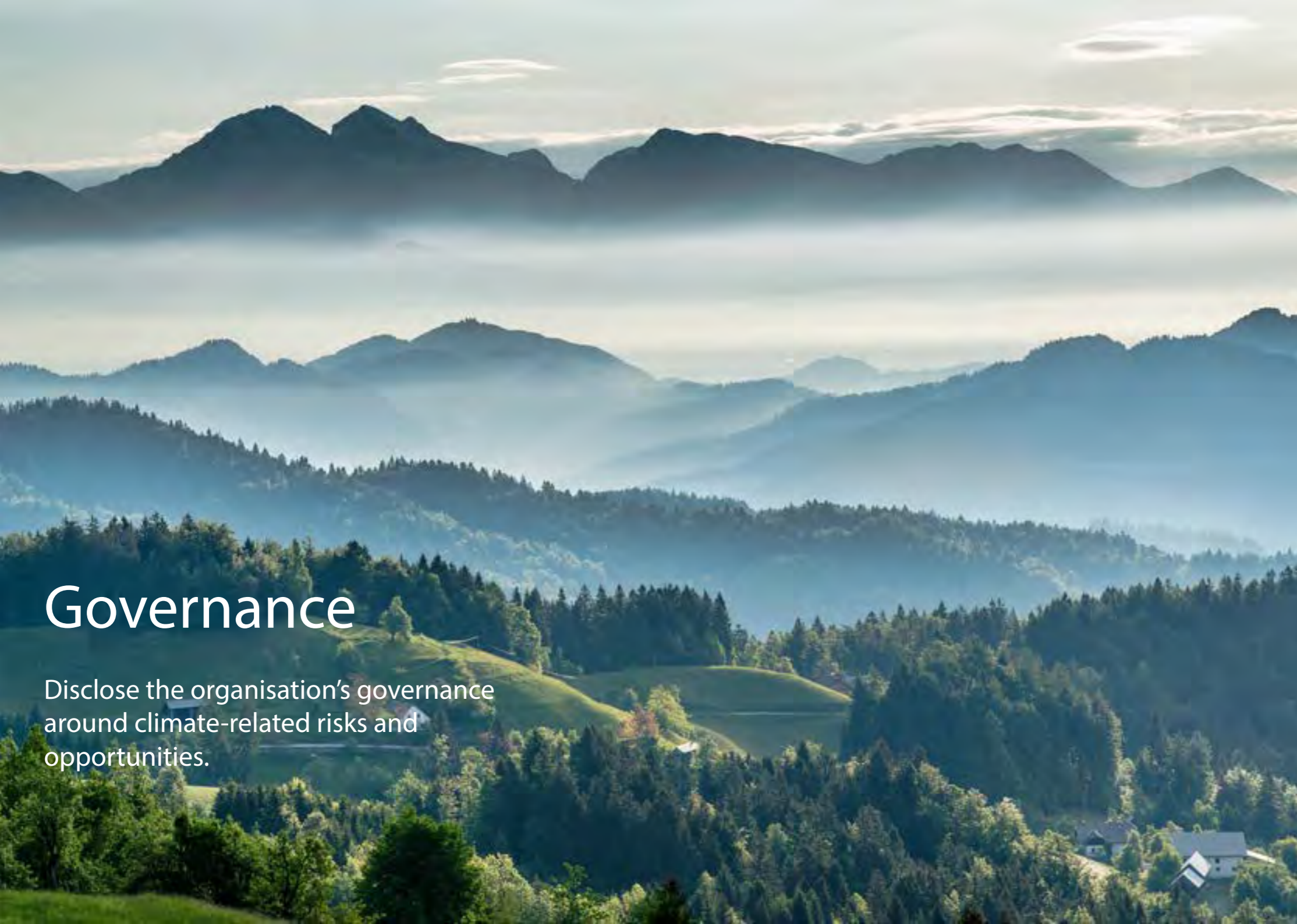
Figure 1: Structure of the TCFD recommendation

About Climate change at Tandem

At Tandem, our mission is to create a greener digital bank. We want to make life more affordable and sustainable for everyone across the UK. We are doing this by offering financial products which support our customers in achieving their goals, whilst aiming to reduce carbon emissions in some of the most important sectors of the economy. From savings products, green home improvement loans and EPC discount mortgages, to EV motor finance and the Tandem marketplace, we support customers on their greener journey.

In 2022, high energy prices together with a heightened awareness of energy security led to more interest from mainstream consumers in low-carbon alternatives. For example, high efficiency boilers, solar panels and heat pumps. They are seeking to save money, whilst doing their bit for the environment. Tandem is pleased to be able to support our customers reduce their household costs whilst cutting their emissions at the same time.

Our green lending represents approximately one quarter of our balance sheet at £250m and has resulted in an estimated reduction of 12,000 tonnes of carbon emissions in our value chain. We are also committed to reducing our operational carbon footprint which is comparatively low as a digital bank without physical branches. In 2023, we will commence the process of setting our net-zero targets and developing meaningful actions to meet these targets. To support our commitment to good environment, social and governance (ESG) practices, this financial year we established an ESG Committee, which oversees all related activity across the business.



# Governance

Disclose the organisation's governance around climate-related risks and opportunities.

## Governance

Throughout 2022 Tandem has built on its existing corporate governance framework to ensure that the Group is supported by standards in line with banking best practice. By following the recommendations of the TCFD we have worked to integrate climate change into our existing governance structures.

### Board Oversight

Tandem recognises and understands the crucial role financial institutions play in the sustainable economic transition. The Board has oversight on Tandem's climate-related risks and opportunities, with Chief Executive Officer holding ultimate accountability for climate risk.

The Board meets approximately monthly, at a minimum ten times a year. As the ESG strategy is developed, climate related discussions will be included in the Board agenda to ensure Tandem's strategy, messaging and purpose are aligned with ESG at the heart of it.

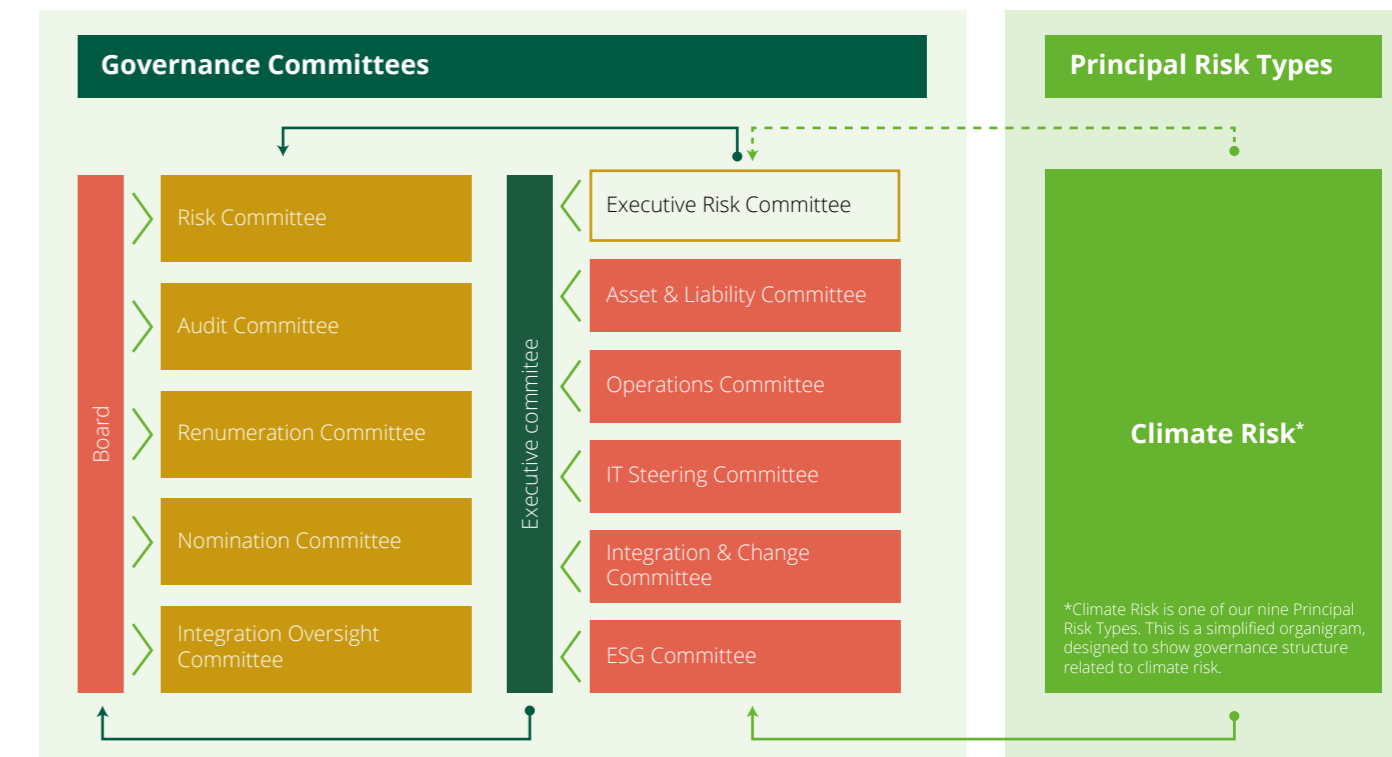
We work closely with a third-party ESG consultancy to assess the potential climate-related risks and opportunities that are material to the business in the short, medium and long term. ESG Board packs were provided in January 2023 to build capacity and training for the Board including climate change education. The Board were also provided with supplementary information on how climate change will impact risks and opportunities specific to Tandem, including its credit exposure, lending and current holdings.

Tandem's ESG strategy is a key component of the Bank's overall business, and the Board ensures this has been embedded throughout the business. In 2023, the Board will be responsible for signing off on our ESG targets which will be developed under three key pillars: People, Planet and Product.

With the growing importance of corporate and financial sustainability, as well as our mission to support consumers with making greener choices, the Board established an ESG Committee in 2022.

Further responsibilities are delegated across climate governance teams on the Board and management level.

Figure 2: Board and Executive Committee Structure



## ESG Committee

Tandem's ESG Committee is responsible for developing sustainability objectives and embedding ESG into the company's strategy and across all levels of the business.

Led by the MD Corporate Development and Impact the ESG Committee meets bi-monthly to further develop and provide guidance on the Bank's ESG objectives and progress towards meeting them. It is comprised of executive and senior leadership members including the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief People Officer (CPO), and Chief Risk Officer (CRO) who are closest to the material sustainability areas of the business.

Reporting to the Executive Committee (ExCo), the Committee meets bi-monthly and after every meeting provides updates to ExCo on Tandem's management of climate-related risks and opportunities.

The Committee works closely with third party specialists to conduct climate-risk modelling and to oversee environmental reporting, climate risk management and strategy development. During 2022 the Committee has prioritised climate related capacity building (training) of the ExCo and Board.

As part of this work, the ESG Committee has oversight of the Climate Change Risk Framework, in collaboration with the Risk and Executive Risk Committee (ERC). The Committee enables the production and review of all ESG and TCFD disclosures and provides approval before recommending them to the ERC and ExCo.

## The Board Risk Committee and the Executive Risk Committee

Tandem has a comprehensive and robust risk management framework to identify, assess and mitigate risks. The Board Risk Committee comprises independent non-executive directors who review and maintain the risk management framework and support the Board in ensuring risk management systems and controls are fit for purpose, regularly assessing current risk with the Board's approved risk appetite.

The Executive Risk Committee ('ERC') is responsible for the monitoring and management of the Group's risk management arrangements and practices. The ERC has identified climate risk as one of the nine Principal Risks for the Bank. Following the successful climate-risk management workshop, an objective of 2023 is for the Executive Risk Committee to work with the ESG Committee to develop the Climate Change Risk Framework. This will help to identify, assess and mitigate climate-related risks. They support the Board in overseeing risk management systems and controls.

## Management

The responsibility for managing climate-related risks is currently being delegated amongst senior management and management teams. The Bank has an ESG Policy and is currently building the sustainability criteria for its green products, as well as establishing carbon emissions data collection and disclosure procedures for its operations and products. Going forward we will be developing further training opportunities and increase knowledge in relation to climate-related governance.

As part of its risk management, Tandem has a Senior Manager and Certification Regime (SMCR). This framework holds individuals to account for the areas that they are responsible for managing. Climate risks are being integrated into this framework. There are three key elements to the framework:

- Senior Managers Regime: applies to individuals with key roles or overall responsibility for whole areas of the Group. These people are called Senior Manager Function (SMF) holders.
- Certification Regime: applies to all other staff who are material risk takers, or could pose significant harm to the Group, or any of its customers.
- Conduct Rules: high level requirements that hold individuals to account.

# Strategy

Disclose the material actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

# Strategy

## Our Mission: Banking for a Greener Future

At Tandem, we want to be part of creating a more sustainable world and to do that by offering customers products which are both competitive and green. We have set internal criteria and thresholds for labelling our products as 'greener'. These are based on the decarbonisation potential, cost-saving potential, access and affordability and the educational value of a product. This allows us to evaluate if a product should be labelled as green and to explain each product's contribution to our mission of banking for a greener future.

To ensure a robust business model, we must understand both current consumer demands and pressures, as well as potential future changes that could impact the business. There are two key ways that climate change could impact Tandem, through the risks and changes associated with the transition to a low-carbon economy, and through the physical risks that a changing climate could pose to our investments (see Table 1). The TCFD has provided us with a framework, along with climate scenario analysis, to better understand the risks and opportunities posed by climate change.

Table 1: Climate-related risks as categorised by the TCFD.

Category	Key Area	Examples of potential risks
Transition Risks	Policy and Legal Risks	Carbon pricing Increased reporting obligations
	Technology Risks	Transition to lower carbon technology
	Market Risks	Changing customer preferences Increased material and energy costs Long Life assets with high emissions footprint
	Reputation Risks	Stakeholder concern Stigmatisation of sector
Physical Risks	Acute Risks	Extreme weather events
	Chronic Risks	Rising mean temperatures Rising sea levels



# Assessing the risks

## Climate scenario analysis

It is difficult to precisely predict the nature and impacts from climate change, due to the many complex and interacting systems which influence the weather. Additionally, the extent of climate change and the associated impact will be influenced by the mitigation actions taken by the government and businesses. This is why we have used climate scenario analysis, as recommended by the TCFD, to model potential futures based on temperature rise and government action. This then allows us to factor these impacts into our business strategy.

## Our Scenarios

Using scenario analysis, our scenarios covered a best-case option (<2°C), a future based on current best predictions of most likely outcomes (2-3°C) and a worst-case scenario (>3°C). These three possible scenarios allow us to consider the full range of potential impacts on our business, including the opportunities associated with the transition to a low-carbon economy.

The modelled scenarios were:

**Below 2°C warming by 2100**

This best-case scenario envisages a world where urgent and immediate action is taken. As a result, global average temperature rise is kept to well below 2°C. This is in line with the Paris Agreement target of 1.5°C. This ensures lower physical risks and a more predictable climate in future.

As the transition is orderly in this scenario, transition risks are moderate. Governments are coordinated in implementing policies and regulations to reduce carbon emissions and limit climate change. Businesses have sufficient time to plan for changes, before they become binding. As well as government action, businesses strive to lead by example and align with the Paris Agreement.

**2-3°C warming by 2100**

The scenario most closely represents the current expected outcome, based on current global commitments. In this future, the response to climate change is slower and more ad-hoc, ultimately leading to 2-3°C of warming by 2100. This increases the long-term impact of climate change, as climate becomes less predictable and the frequency and severity of extreme weather events (for example, flooding and storms) increases.

This scenario has the highest level of transition risks, due to the rapid and less coordinated way in which policies and legislation are introduced. Additionally, fewer companies aim to lead the way in reducing their environmental impact. Technological and other solutions are slower to come to market. Deep decarbonisation will only occur in easy-to-abate sectors.

**Over 3°C**

This scenario envisages a world in which concrete or sufficient climate action is not introduced for decades, resulting in an average rise in global temperatures of over 3°C. Physical climate risks are highest and are likely to be exacerbated by tipping points, which are critical thresholds that, once passed, lead to large and often irreversible changes to the climate.

In this scenario, transition risks will be experienced in the long term, due to the delay in action by governments.

## Our Time Horizons

Each scenario was assessed across three time horizons: short (2022-2027), medium (2027-2037) and long-term (2037-2052). These go beyond usual business timelines, to allow for the long-term impacts of climate change, including the transition to a low-carbon economy, driven by the UK government's 2050 net-zero target.

However, when considering our response to the risks, we have focused on the short-term actions that we can take. These are divided into very short-term (12 months) and short-term (12-60 months), which align more closely with our usual business processes in terms of time scales.

## Overview of our results

In total, 20 risks were considered, covering transition risks associated with the move to a low-carbon economy and physical risks resulting from a changing climate. Two transition risks were identified as having a potential high gross impact on Tandem in the short to medium term (Table 2).

Firstly, it is almost certain that there will be increased climate-related reporting requirements for us, such as mandatory TCFD reporting, which brings with it increased operating costs and the risk of non-compliance. This voluntary TCFD disclosure and our Scope 3 calculations are part of our mitigating actions to control this risk.

Secondly, we will almost certainly experience increased mandates on our products and services. We are looking to mitigate this by specifically developing green products, which align with a low-carbon world and by horizon scanning for future regulations that may impact our products. In future, we will be considering the potential impact on our mortgages and loans.

The climate risk assessment concluded that most of Tandem's sites are at low risk from climate change and all other risks were considered moderate gross impact or lower. They can be found in the Appendix in Table X which outlines all the risks considered, the scenario and time horizon of the greatest potential impact, with the areas of financial impact and our mitigation measures.

Table 2: Climate-related risks which may impact the business

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
Policy & Legal	Enhanced emissions reporting and other reporting obligations	Short - Medium Term (2022-2037)  <2 °C 2-3 °C	Tandem will soon be impacted by Government regulation to disclose emissions and TCFD data, as well as the incoming UK Green Taxonomy. As the world aims to transition to a decarbonised economy, further regulations may be introduced over time, specifically in the banking and financial sectors. The costs and resources required to ensure that Tandem is compliant with these additional reporting regulations will likely increase. For example, BEIS estimate that it will cost the average company £88,000 a year to comply with the TCFD disclosure requirements.	Financial impact: Increased risk of litigation and non-compliance. Increase operating expenditures through internal resources and third-party consultants.  Mitigation: We work with third-party consultants to ensure compliance with current and emerging regulation. We are developing our resources and climate governance structures internally.
	Mandates on and regulation of existing products and services	Short - Medium Term (2022-2037)  <2 °C 2-3 °C	The banking sector can be subject to tightening of existing regulations, which can impact products and services offered, such as the incoming UK Green Taxonomy. This can increase compliance costs. Changing regulations in the UK property sector may have a particularly profound impact on Tandem, this includes building decarbonisation regulations (electrification, transition from gas boilers to electric etc.), EPC requirement changes, and water use regulations. Such changes may decrease the available properties that can be mortgaged.	Financial impact: Tightening of existing regulations impacting products that can be offered, costs and returns. Increased exposure to climate-related financial risk. Increased compliance costs. A swift change in policy could risk the potential for stranded assets (especially as proportion of first charge mortgages increases). Regulation around EPC ratings for properties may make some unlettable.  Mitigation: Continue to adapt existing products and introduce new products. Internal resources and engagement with third-party ESG consultants may be required to meet changing regulation as we transition to a decarbonised economy

Table 3: Climate-related opportunity which may impact the business

Area	Climate-related Opportunity	Scenario and time horizon of highest impact	Description	Impact
Market	Developing new products and services for a low carbon economy	Short – Long Term (2022-2052)  <2 °C	As we transition to a lower carbon economy or as awareness of climate change and the need for a transition grows, customers may change their habits to make more sustainable consumer choices. Our business strategy has been developed with changing consumer preferences in mind, offering a range of green and sustainable products to facilitate our customers reducing their own carbon footprint. We believe we have positioned ourselves to capitalise on this opportunity and increase our revenue and customer base.	Financial impact: Increased revenue due to an increased demand for products and services  Management: Providing finance for the transition to a low carbon economy. Tandem Marketplace: will offer information and resources on greener financial choices, starting with information on retrofitting homes



## Risk Management

The Risk Committee and Board approved climate change as a principal risk in Q1 2022. This was based on an initial analysis that considered the inherent impacts of physical and transition risks across all principal risk types, while recognising that climate risk represents a new type of principal risk (through its transversal impact on strategy, business model, data and credit risk).

Subsequently, we have engaged with an external consultancy to conduct a climate scenario analysis and a risk assessment, which provide further insight into the risks associated with climate change. The results will be presented to key internal stakeholders, including our Chief Risk Officer and Financial Controller.

We are currently integrating climate risk into our risk management processes, and will begin making it a regularly scheduled agenda item for the Board and relevant committees. There is currently no link between executive remuneration and ESG or climate-related risk management.

In 2023, we will use financial modelling to consider the financial impact of the identified risks. This will further strengthen our ESG and net-zero strategies.

### Our Risk Management Processes

Tandem regards risk management as a key element to sustainable performance and long-term value generation. To ensure that risk-related decisions are consistent with the Bank's overall strategy, the Board has ultimate responsibility for climate-related risks and opportunities. Climate risk is currently one of the nine principal risks identified for the Bank and we are still developing our understanding and management of this. It comes in the form of physical and transitional risks that can have potential impacts across our business operations and products.

Tandem has a comprehensive and robust corporate risk management framework to identify, assess and mitigate business risks. The ESG and Impact Committee is currently collaborating with the Risk and Executive Risk Committees, to formalise the Bank's Climate Change Risk Framework.

Our enterprise risk management framework follows five steps:

#### Step 1: Risk & Control Identification

Tandem will identify the climate-related risks and opportunities in early 2023 through research, stakeholder engagement and risk workshops. The resulting climate risk assessment will assess the climate risks to provide Board and management with an understanding of the Bank's risk exposure.

#### Step 2: Risk Analysis

The risk management function undertakes risk analysis to provide all stakeholders with the current risk exposure position, trends and adherence to the standards required for effective risk management activity. Risk materiality is assessed by the likelihood of the risk and the magnitude of the impact. This is assessed using the matrix in Figure 3.

Going forward, the Bank aims to develop and implement climate specific risk analysis processes.

#### Step 3: Risk Reporting

The risk management function will provide reporting to the Executive Risk Committee (ERC), Executive Committee and Board at a suitable frequency for each, which will be finalised in 2023. Reporting will be provided on an ad-hoc basis on request, to support business activity and improve understanding.

#### Step 4: Risk Treatment/Controls

Tandem operates a three lines of defence model for risk management and control. The first line of defence is that each business area and function within the Bank is responsible for identifying, understanding, and managing their risks and maintaining effective internal controls. The second line of defence establishes the policies and tools required, to provide a framework for managing each of the principal risks and providing oversight and monitoring of the first-line risks and controls. The Chief Risk Officer has primary responsibility for this. The final line of defence is the Internal Audit function, which provides independent assurance on the effectiveness of the internal control system.

#### Step 5: Monitoring

To enable monitoring of the risks and controls across business functions, the risk management function will conduct formal Risk and Control Self Assessments at defined intervals and engage with risk owners, where circumstances have been identified that may impact the risk rating or control assessment.

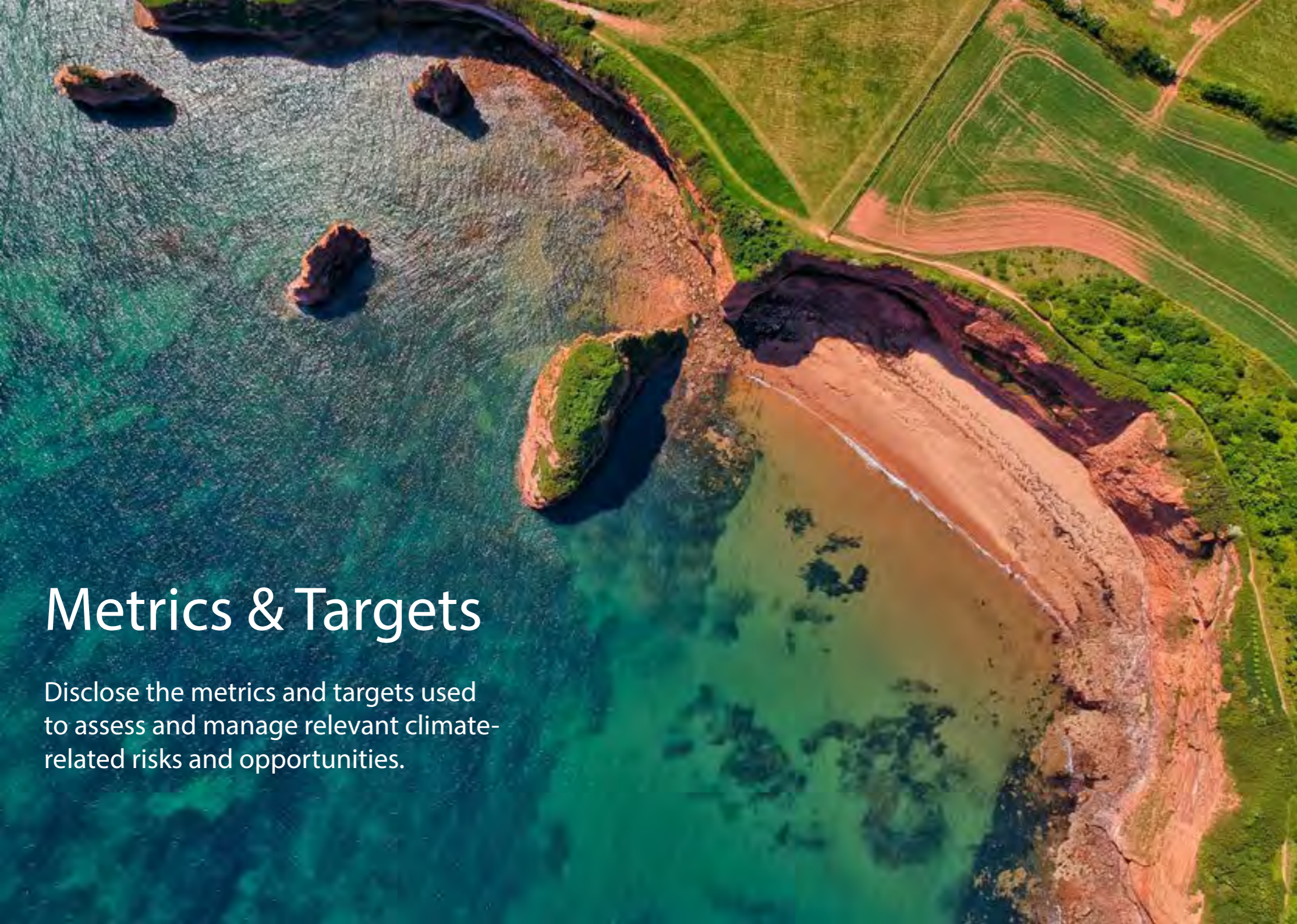
Figure 3: Our risk assessment matrix.

Likelihood	5 Almost Certain	Moderate	High	High	Critical	Critical
	4 Likely	Moderate	Moderate	High	High	Critical
	3 Possible	Low	Moderate	Moderate	High	High
	2 Unlikely	Very Low	Low	Moderate	Moderate	High
	1 Rare	Very Low	Very Low	Low	Moderate	Moderate
		Insignificant	Minor	Moderate	Major	Critical
		1	2	3	4	5
		Consequence				

# Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.





# Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

## Metrics and Targets

### Measuring and managing our carbon footprint

Understanding our current total emissions is crucial to beginning our carbon reduction and sustainability journey, as it will become the benchmark for measuring our future progress. In FY2022, we calculated all of our applicable Scope 1, 2 and 3 emissions, following the acquisition of Oplo. Our Scope 3 emissions cover all our emissions in the value chain, including upstream and downstream activities and our lending portfolio (from home improvement loans to motor loans and mortgages).

Based on this, we will be developing our emission reduction targets and strategy in 2023. We intend to align with the Science-Based Targets initiatives guidelines for our near and net-zero targets, meaning we will achieve net zero for our Scope 1, 2 and 3 emissions by no later than 2050. To ensure we set an ambitious yet achievable target we are in the process of developing a net-zero strategy which will inform our decisions on these targets. This will be followed by a decarbonisation plan to map how the targets will be achieved.

We are aware our financed Scope 3 emissions will be the hardest emissions category to decarbonise and that our own operational emissions can be decarbonised at a faster rate. As such, we are in the process of developing a net-zero Scope 1 and 2 target and expect this will be achieved within the next decade. In 2023, we will also develop near, and long-term Scope 3 targets aligned to the SBTi's financial institute guidance. We plan to have these targets validated by the SBTi.

We are at the beginning of our energy efficiency journey and are working towards exploring energy use reduction methods. By managing our energy use and carbon emissions, we can mitigate several transition risks, including increased reporting requirements,

fluctuating energy costs and the potential for a carbon price to be introduced.

### Our Metrics and Targets

We have set several actions and targets, to support our progress. We have divided these into four key areas: greener products, partnering for change, zero carbon and eliminating waste in our operations. These will form the basis of our ESG Strategy which we will be publishing in 2023.

#### Greener Products

- In 2022 we assessed all existing products and those in the pipeline against our Greener Product Criteria.
- Based on our Greener Product Criteria 68% of loans represented greener lending, which accounted for 24% of the total value of our loan book.
- Our long term goal is to increase this to 80%.

#### Partnering for change

- From 2023: We will accelerate progress to zero carbon living by partnering with likeminded organisations.
- Partnering for change: Going forward we will engage with our retail partners to ensure they have met the threshold of our ESG Assessment.

#### Zero Carbon

- In 2023: We will commit to a net zero target, aligned with the Science-Based Targets Initiative (SBTi). We will determine our net-zero targets and strategy.

#### Eliminate waste in operations

- By 2023: We will conduct a waste audit, to understand our waste and waste disposal routes.
- By 2023: Based on audit findings over 2023, we will be setting ambitious targets to reduce waste going to landfill.



## Our Carbon Emissions

### SECR Reporting

The following figures show the consumption and associated emissions for this reporting year for our operations throughout the UK, in accordance with the Streamlined Energy and Carbon Reporting (SECR) regulations. SECR was developed for certain organisations, to enhance transparency and awareness regarding energy consumption and carbon emissions and to facilitate the UK's efforts to meeting its climate targets.

Scope 1 consumption and emissions include direct combustion of natural gas and fuels utilised for transportation operations, for example, company vehicle fleets.

Scope 2 consumption and emissions refer to indirect emissions related to the consumption of purchased electricity in day-to-day business operations.

Scope 3 consumption and emissions cover emissions resulting from sources not directly owned by us. This relates to grey fleet (business travel undertaken in employee-owned vehicles) only.

**Table 4: Tandem Bank Limited UK Total Energy Consumption (kWh).**

Utility and Scope	2022 Consumption (kWh)
Scope 1 Total	49,565
Gaseous and other fuels (Scope 1)	49,565
Transportation (Scope 1)	0
Scope 2 Total	243,859
Grid-Supplied Electricity (Scope 2)	243,859

Utility and Scope	2022 Consumption (kWh)
Scope 3 Total	130,012
Transportation (Scope 3)	130,012
Total	423,436

**Table 5: Tandem Bank Limited UK Total Location-based Emissions (tCO<sub>2</sub>e).**

Utility and Scope	2022 Consumption (tCO <sub>2</sub> e) Location-based
Scope 1 Total	9
Gaseous and other fuels (Scope 1)	9
Transportation (Scope 1)	0
Scope 2 Total	47
Grid-Supplied Electricity (Scope 2)	47
Scope 3 Total	31
Transportation (Scope 3)	31
Total	87

**Table 6: Tandem Bank Limited UK Emissions Intensity Metric.**

Intensity Metrics	Location-based tCO <sub>2</sub> e	
	2022	% change
All Scopes kgCO <sub>2</sub> e per FTE	157.76	n/a
All Scopes tCO <sub>2</sub> e per FTE	0.16	n/a



## Energy Efficiency Improvements

We are committed to year-on-year improvements in our operational energy efficiency. A register of energy efficiency measures has been compiled, with a view to implementing these measures in the next five years.

Tandem Bank Limited are at the start of their energy-saving journey and are committed to reviewing opportunities for reduction over the course of the next financial year.

### Carbon Balance sheet

This year we have calculated our Scope 3 emissions footprint. Our Scope 3 calculations include all applicable categories as per the GHG Protocol. These include categories 1 (purchased good and services), 2 (capital goods), 3 (fuel-related emissions), 4 (upstream transportation and distribution), 5 (waste generated in operations), 6 (business travel), 7 (employee commuting), 12 (end-of-life treatment of sold products) and 15 (investments). Our investment-related emissions have been quantified following the Partnership for Carbon Accounting Financials (PCAF) guidelines for each relevant asset class, namely project finance, mortgages and motor vehicle loans. Within our Scope 3 – Category 15 emissions, boiler purchases account for 99% of emissions as we have taken account of the annual energy consumption of each boiler, we provide financing for. A full breakdown of these is provided in Table 8.

### Our Scope 3 emissions

Until recently, most companies have focused on measuring emissions from their own operations and electricity consumption (Scope 1 and 2). Scope 3 accounts for the greenhouse gas (GHG) emissions associated with a company's entire value chain. These are considered indirect emissions as they are not under a company's direct control yet often account for 80% - 99% of a business's total emissions footprint.

Quantifying Scope 3 emissions is challenging as it either requires gathering primary data from other stakeholders within a company's value chain, such as suppliers or customers, or using secondary data to estimate emissions. Although standards exist for Scope 3 emissions, such as the Greenhouse Gas Protocol's Corporate Standard and PCAF guidance, the availability and quality of input data can have a major impact on resulting emission estimates.

Tandem has completed a thorough review of the Scope 3 categories that are applicable to our business and have used secondary data to estimate emissions from all relevant activities within our value chain. Emissions associated with our loan book make up the majority of our Scope 3 footprint, as is expected for financial institutes.

Due to the majority of our customers being residential customers, we have not been able to gather primary data and have therefore used secondary data to estimate the emissions produced by all energy-consuming activities made possible by our loans. This includes motor vehicle loans, mortgages and loans for home improvements including the purchase of gas boilers. Using secondary data such as average fuel consumption in cars and average electricity consumption in homes means we have accounted for all of the energy-consuming loans within our portfolio.

The financing of gas boiler purchases accounts for 98% of our carbon footprint. At the end of 2022, we had more than 70,000 boiler loans in our portfolio, and we estimated the annual emissions produced by each of these boilers based on the average natural gas consumption per UK home, as reported by Ofgem. Based on this average, a boiler consumes 12,000 kWh of gas per year which produces around 2,500 kgCO<sub>2</sub>e. As we have 70,000 boilers on our books, this explains why our Scope 3 footprint is so high. We have chosen to disclose the emissions associated with

these purchases as, although gas boilers do produce greenhouse gas emissions, new boilers with improved efficiencies actually reduce our customers' carbon footprint, therefore the more boilers we help finance the more we help our customers cut their carbon footprint.

We plan to work with our existing and new customers to gather more accurate data about the energy they consume in the activities we have funded, for example, gathering data about the gas consumed by their new boiler or petrol consumed in their new car. This will allow us to more accurately quantify the emissions associated with our investments. It will also allow us to better estimate the carbon savings we are facilitating by comparing the energy consumption of the products we finance compared to potentially higher emitting alternatives our customers could have been using. This will be especially important for our home improvement loans, including energy-efficient gas boilers, air and ground source heat pumps and solar panels.

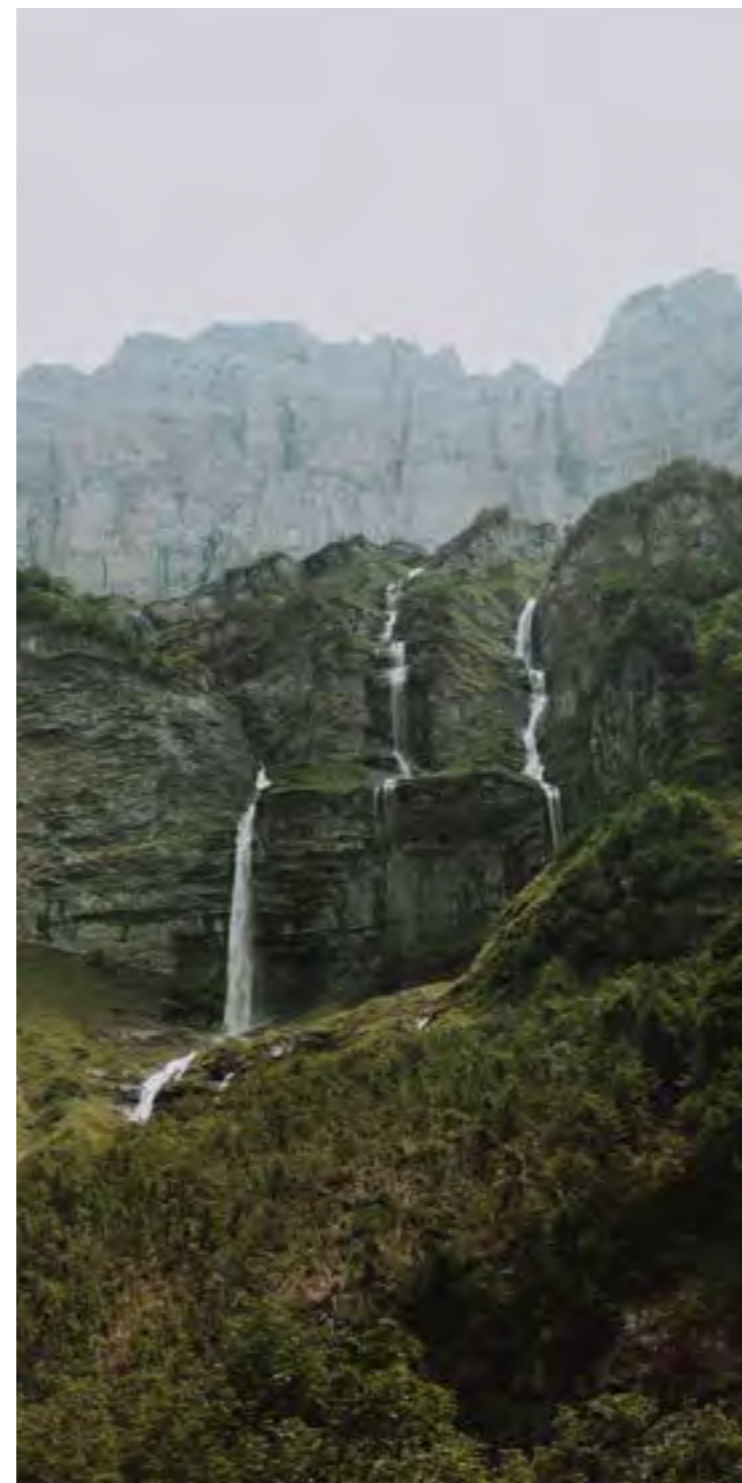
The emissions figures from our 2022 Annual Report have been re-stated. New sources of data were identified after publishing our 2022 report, which improved the data quality and identified new areas of emissions. In order to maintain consistency in reporting, moving forward, our 2022 figures have been re-calculated in line with the methodology that will be used in 2023. To demonstrate full transparency, the updated table is outlined below.

**Table 7: Total Emissions by scope.**

Emissions	tCO <sub>2</sub> e
Scope 1	9
Scope 2	47
Scope 3	189,394
Total	190,033

Table 3: Climate-related opportunity which may impact the business

Emissions Scope & Scope 3 Category	Location-Based tCO <sub>2</sub> e	% of Location-Based Total
Scope 1	9	0.00%
Natural Gas	9	
Transportation (excluding grey fleet)	n/a	
Other Fuels	n/a	
Scope 2	47	0.02%
Scope 3	189,394	99.97%
1. Purchased Goods & Services	1,374	0.73%
2. Capital Goods	125	0.07%
3. Fuel-related Emissions	15	0.01%
4. Upstream Transportation and Distribution	42	0.02%
5. Waste Generated in Operations	36	0.02%
6. Business Travel	108	0.06%
7. Employee Commuting	537	0.28%
8. Upstream Leased Assets	0	0.00%
9. Downstream Transportation and Distribution	n/a	
10. Processing of Sold Products	n/a	
11. Use of Sold Products	n/a	
12. End-of-life Treatment of Sold Products	8	0.004%
13. Downstream Leased Assets	n/a	
14. Franchises	n/a	
15. Investments	187,149	98.79%
Total All Scopes	189,450	
All scopes tCO <sub>2</sub> e per FTE	344	



## Appendix

### Methodology

This report (including the Scope 1, 2 and 3 consumption and CO<sub>2</sub>e emissions data) have been developed and calculated using the GHG Protocol – A Corporate Accounting and Reporting Standard (World Business Council for Sustainable Development and World Resources Institute, 2004); Greenhouse Gas Protocol – Scope 2 Guidance (World Resources Institute, 2015); ISO 14064-1 and ISO 14064-2 (ISO, 2018; ISO, 2019); Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (HM Government, 2019).

Government Emissions Factor Database 2022 version 1 has been used, utilising the published kWh gross calorific value (CV) and kgCO<sub>2</sub>e emissions factors relevant for reporting period 01/01/2022 – 31/12/2022.

Estimations were undertaken to cover missing billing periods for properties directly invoiced to Tandem Bank Limited. These were calculated on a kWh/day pro-rata basis at meter level.

For properties where Tandem Bank Limited is indirectly responsible for utilities (i.e., via a landlord or service charge), the median consumption for properties, with similar operations was calculated at meter level and applied to the properties with no available data.

These full-year estimations were applied to six electricity supplies. All estimations equated to 13% of reported consumption.

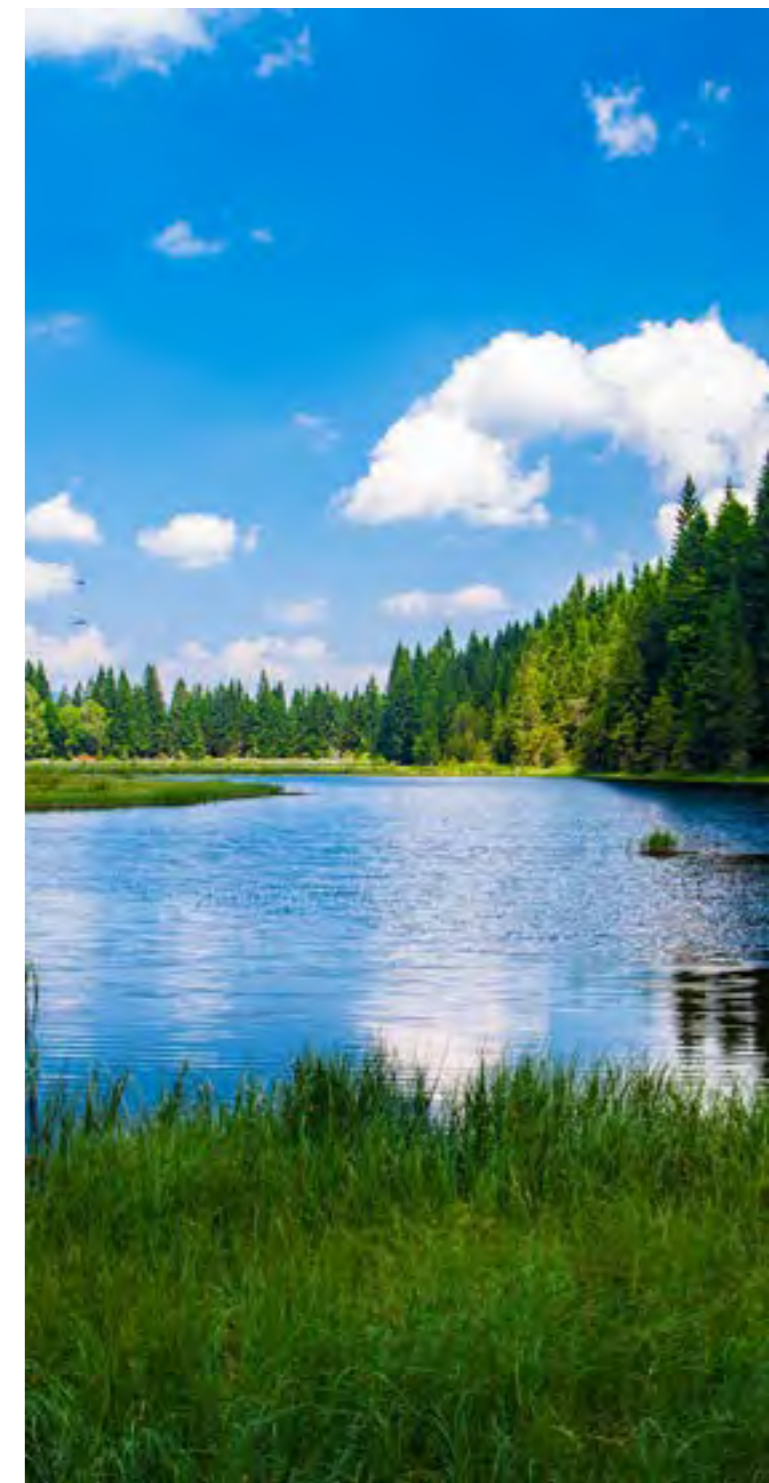
Intensity metrics have been calculated using total tCO<sub>2</sub>e figures and the selected performance indicator agreed with Tandem Bank Limited for the relevant report period:

Full time equivalents (FTE): 550

Scope 3 – Category 15 (Investments) emissions, also referred to as financed emissions, have been calculated

following the PCAF guidance. For each type of financing we provide, covering mortgages, home improvements and motor vehicle loans, the emissions associated with the financed activity have been estimated and then attributed to us based on the current loan-to-value ratio.

- For home improvement loans, yearly energy consumption was estimated for each energy consuming product type, i.e., boilers, heat pumps, holiday ownership, and emissions were then calculated using relevant BEIS 2022 emission factors. Energy consumption for each product type was based on UK averages, for example, the average natural gas consumption of a boiler was estimated based on Ofgem estimates of typical annual gas usage in Britain.
- For motor vehicle loans, annual fuel consumption for each loan-enabled vehicle was estimated using average annual mileage data and emissions were then calculated using BEIS 2022 emissions factors. Emissions were then attributed to Tandem based on the loan-to-value ratio of each purchased car.
- For mortgage related loans, annual energy consumption was estimated based on average energy consumption data according to location and emissions were calculated using relevant BEIS 2022 emission factors. Emissions were then attributed to Tandem based on the current loan-to-value ratio of each mortgage.



Climate-related risks

The climate risk assessment concluded that most of Tandem's sites are at low risk from climate change and all other risks were considered moderate gross impact

or lower. They can be found in the Table below which outlines all the risks considered, the scenario and time horizon of the greatest potential impact, with the areas

of financial impact and our mitigation measures.

Table 9: Transition Risks

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
Policy & Legal	Increase in Carbon/GHG pricing	Medium Term (2027-2037) 2-3 °C	If carbon emissions do not decrease at a satisfactory rate in line with the net-zero targets in the UK, a tax could be implemented. The highest risk is associated with the 2-3°C scenario in 2026. Direct costs through carbon tax: Projected to be £126.4 per ton CO <sub>2</sub> in the UK in the medium term.	Financial impact: Increased costs associated with carbon tax for Scope 1 and 2 emissions.  Mitigation: Reduce total CO <sub>2</sub> emissions by aiming for net-zero.
	Exposure to Litigation	Medium Term (2027-2037) 2-3 °C	While we recognise that failure to comply with new policies and regulations may expose Tandem to fines and lawsuits, we classify this as an extremely low risk to our business given how our strategy is being developed with consideration for current and emerging regulation.	Financial impact: Increased operating costs to avoid litigation or pay for any associated costs. Decreased revenue due to reputational damage.  Mitigation: Internal resources and engagement with third-party ESG consultants may be required to manage changing regulation as we transition to a decarbonised economy.
Markets	Uncertainty in market signals	Medium Term (2027-2037) 2-3 °C	Impacts of climate change are varied and complex. Shifts in supply and demand for certain commodities, products, and services. Changes in policies can lead to sudden changes in markets (energy prices). New climate-conscious markets could present Tandem with strategic and financial opportunities. However, we must be able to adapt to sudden and often reactive market trends.	Financial impact: Tandem may be at risk of loss of revenue, reduced profitability and reduced growth if it is unable to keep pace with changing consumer preferences.  Mitigation: Continue to adapt existing products and introduce new products. Continue to conduct market research on potential changes in consumer behaviour and preferences. Opportunity to provide financing for carbon reduction initiatives, green products and services.

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
Markets	Changing customer behaviour	Medium Term (2027-2037) 2-3 °C	As we transition to a lower carbon economy or as awareness of climate change and the need for a transition grows, customers may increasingly demand environmentally responsible or low-carbon products and not use companies which are unable to provide this service.	Financial impact: Tandem may be at risk of loss of revenue, reduced profitability and reduced growth, if it is unable to keep pace with changing consumer preferences.  Mitigation: Continue to adapt existing products and introduce new products. Conduct further market research on potential changes in consumer behaviour and preferences. Ongoing opportunity to provide financing for carbon reduction initiatives, green products and services.
	Increased cost of energy and raw materials	Short - Medium Term (2022-2037) 2-3 °C	Energy costs may increase as energy demand grows in a warming climate, driving up energy prices. As a digital bank, energy use and associated emissions will not be a major concern, due to limited physical properties. Most energy use and emissions will come from data centres and technological infrastructure. This risk is likely to impact both Tandem's direct costs and ability to reduce carbon emissions, as well as impacting customers and products.	Financial impact: Energy costs may increase as energy demand grows in a warming climate, driving up energy prices. As a digital bank, energy use and emissions are very low compared to traditional banks with physical branches. Potential impact on cost of living and affordability leading to reduced ability to repay loans.  Mitigation: Net zero strategy to plan transition to a lower emissions operations and value chain Tandem Marketplace: offering information and resources on greener financial choices, starting with information on retrofitting homes.
Reputation	Increased stakeholder concern or negative stakeholder feedback	Short - Medium Term (2022-2037) <2 °C 2-3 °C	We recognise that as the world transitions to a decarbonised economy, stakeholders are likely to have increased interest and concern for companies' sustainability credentials. As we develop our business strategy with consideration for stakeholder feedback as well as internationally recognised best practice, we classify this as an extremely low risk to our business.	Financial impact: Reduced access to capital; reduced asset and company valuations. Reduced revenue if customers choose not to use Tandem. Reduction in ability to attract and retain talent.  Mitigation: Communicating response to climate change through TCFD Report. Continue developing green products and services to show action is being taken.

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
Reputation	Shifts in consumer preferences	Medium Term (2027-2037) 2-3 °C	As we transition to a lower carbon economy or as awareness of climate change and the need for a transition grows, customers may increasingly demand that companies act accordingly and may not use businesses that they deem to be not taking sufficient action. Our business strategy has been developed with changing consumer preferences in mind therefore we classify this as an extremely low risk to our business.	Financial impact: Tandem may be at risk of loss of revenue, reduced profitability and reduced growth, if it is unable to keep pace with changing consumer preferences.  Mitigation: Continue to adapt existing products and introduce new products. Opportunity to provide financing for carbon reduction initiatives, green products and services.
	Stigmatisation of sector	Medium - Long Term (2027-2052) <2 °C 2-3 °C	Reduced revenue from decreased demand, though this is relatively unlikely as banking is a crucial service to financial systems, therefore we classify this as an extremely low risk to our business.	Financial impact: Tandem may be at risk of loss of revenue, reduced profitability and reduced growth if the sector generally is stigmatised.  Mitigation: Ensuring responsible and environmentally aware business practices.
	Failure to react to competitor marketing of products and services	Short - Medium Term (2022-2037) <2 °C 2-3 °C	If Tandem were slow to react to or had no oversight of changes in the market by competitors in relation to strategy, products & services in relation to Climate Change, this could result in a loss of market share as customers choose a perceived 'Greener' company or product. As we develop our business strategy with consideration for stakeholder feedback as well as internationally recognised best practice, we classify this as an extremely low risk to our business.	Financial impact: Loss of revenue. Reduction in customer base. Unable to achieve strategic objectives.  Mitigation: Monitoring of competitors.
Technology	Costs to transition to lower emissions technology	Short - Medium Term (2022-2037) <2 °C 2-3 °C	Legislation on phasing out ICE cars could reduce valuation of existing vehicles; introduction of building electrification technology may demand increased investment/higher standards to comply with mortgage requirements. However, there are potential growth opportunities in Tandem's home improvement financing services as a result and therefore we classify this as an extremely low risk to our business.	Financial impact: Acceleration of the timetable of or material change in the legislation driving phasing out of ICE cars could reduce the valuation of existing vehicles. Customers repayments may be impacted.  Mitigation: Monitoring changing market trends when developing our climate risk framework and net zero strategy. Opportunity to provide loans for electric vehicles, financing for carbon reduction initiatives and emerging low-carbon technology.

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
Technology	Substitution of existing products and services with lower emissions options	Short - Medium Term (2022-2037) <2 °C 2-3 °C	As Tandem is primarily a service provider and not a goods supplier, we classify this as an extremely low risk to our business.	Financial impact: Risk of loss of revenue, reduced profitability and reduced growth if we are unable to keep pace with changing consumer preferences. Mitigation: Monitoring changing market trends when developing our climate risk framework and net zero strategy. Development of lower carbon products and services.
	Unsuccessful investment in new technologies	Medium - Long Term (2027-2052) <2 °C 2-3 °C	Technology lock-in risk due to investment in technology that may not be feasible in the long term. Tandem is more resilient to this risk as technology for data centres, and associated computer systems are already widely used in the industry. We classify this as an extremely low risk to our business.	Financial impact: Increased CAPEX costs for replacement technology.  Mitigation: Net zero strategy to plan transition to lower emissions operations.

Table 10: Physical risks

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
	Increased Severity of Flooding	Medium - Long Term (2027-2052) 2-3 °C >3 °C	Devaluation of assets due to flood damage, increase in insurance costs, decrease in credit quality of assets: Flooding is the main cause of infrastructure damage in the UK. Climate change can exacerbate the impacts of flooding, increasing in frequency, scale and intensity.	Financial impact: May decrease credit quality of physical assets, such as mortgages, derivative products from mortgages, real estate investment etc. Potential depreciations of asset values due to property damage or increased risk exposure. Potential increased demand for funds by customers for damage repairs. This could have adverse effects on cash flows. Further costs in managing flooding risk for sites and invested assets (for example, mortgaged properties).  Mitigation: Monitor development of climate analysis over coming years. Identify high risk properties and ensure insurance is in place.
Acute	Heatwaves/ Extreme heat	Short - Long Term (2022-2052) 2-3 °C >3 °C	Extreme heat and heatwave events can decrease credit quality due to increased exposure of secured assets to physical climate change impacts. Heatwaves can adversely impact transport and energy infrastructure. This can cause fires to spread. This is a higher risk in urban and densely populated areas that are in close proximity with residential areas.	Financial impact: Rising mean temperatures will lead to a higher demand for cooling, increasing energy costs. Power outages due to increased demand and pressure on the grid can lead to operation disruption. Decline in credit quality due to material exposure to assets impacted by physical climate events.  Mitigation: Monitor development of climate analysis over coming years. IT server infrastructure to be housed in appropriate temperature controlled buildings. All buildings to be fit for purpose in relation to heating, ventilation and air conditioning (HVAC).
	Increased frequency of Wildfires	Long Term (2027-2052) 2-3 °C >3 °C	Extreme heat can adversely impact transport and energy infrastructure. This can cause fires to spread. This is a higher risk in urban and densely populated areas that are in close proximity with residential areas. We classify this as an extremely low risk to our business.	Financial impact: Potential depreciations of asset values due to property damage or increased risk exposure Potential increased demand for funds by customers for damage repairs. This could have adverse effects on cash flows.  Mitigation: Monitor development of climate analysis over coming years.

Table 10: Physical risks

Area	Climate-related Risk	Scenario and time horizon of highest impact	Description	Impact and mitigation
	Sea Level Rise	Long Term (2027-2052) 2-3 °C >3 °C	Properties and assets near coasts and rivers are the most likely to be impacted. Flooding risk will increase in these areas.	Financial impact: Potential depreciations of asset values due to property damage or increased risk exposure.  Mitigation: Monitor development of climate analysis over coming years. Consider impact on assets as proportion of first charge mortgages increases.
Chronic	Rising Mean Temperatures	Medium - Long Term (2027-2052) 2-3 °C >3 °C	Rising mean temperatures will lead to a higher demand for energy use (due to cooling). Rising mean temperatures will also put emphasis on the energy efficiency of the buildings, particularly in mortgaged properties. Inefficient buildings are likely to have lower EPC ratings, which may then be subject to future regulation and bank policies. This may lead to a decrease in credit quality.	Financial impact: Rising mean temperatures will lead to a higher demand for cooling, increasing energy costs. Power outages due to increased demand and pressure on the grid can lead to operation disruption. Decline in credit quality due to material exposure to assets impacted by physical climate events.  Mitigation: Monitor development of climate analysis over coming years. IT server infrastructure to be housed in appropriate temperature controlled buildings. All buildings to be fit for purpose in relation to heating, ventilation and air conditioning (HVAC)
	Water Stress/ Changing Precipitation Patterns	Medium - Long Term (2027-2052) 2-3 °C >3 °C	Increase in water use restrictions for businesses and households. Changing precipitation can increase flooding risk due to the reduced absorbability of the ground. Water stress is projected to have the worst impacts in the Southern and Eastern areas of the country.	Financial impact: Further infrastructure costs or additional costs required to maintain the invested assets in affected regions (East of England, East Midlands, South-East, South-West, West Midlands).  Mitigation: Monitor development of climate analysis over coming years.



Tandem is a trading name of Tandem Bank Limited, a company registered in England and Wales (company registration number 00955491). Registered office at Viscount Court, Sir Frank Whittle Way, Blackpool FY4 2FB. Tandem Bank Limited (FRN: 204479) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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