Oxbury///
The Agricultural Bank

Task Force on Climate Related Financial Disclosures (TCFD) Report

Financial Year 2021 (Published December 2022)

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We are pleased to present Oxbury Bank Plc's (Oxbury) first disclosure report under the Taskforce for Climate-Related Financial Disclosures (TCFD) framework. It forms the final part of our 2021 suite of reports, available on our website at www.oxbury.com/disclosure . Our 2022 report will be formally released at the same time as our Annual Report and Accounts for 2022 during the first half of 2023.

This TCFD Report is being published in line with Oxbury's regulatory obligations as set out by the Prudential Regulation Authority (PRA) of the Bank of England, as codified in the PRA's Supervisory Statement SS 3/19. For Oxbury such a disclosure is in line with our strategy for public disclosures in relation to the activities of the bank with respect to the environment and society as first set out in our 2021 Environmental, Social and Governance (ESG) Statement, publicly available at www.oxbury.com/environmental-social-and-governance.

Statement by the Chief Executive Officer

2021 was Oxbury Bank's first year of operations as an authorised Bank, following the PRA and Financial Conduct Authority (FCA) removing all restrictions on Oxbury's Scope of Permissions to undertake business as a deposit-taker in the United Kingdom (UK) in January 2021. Oxbury therefore launched during an exceptional period against the backdrop of a global pandemic caused by Covid-19 and during the year when the world came together at COP26 in Glasgow in November 2021.

Oxbury is a young institution, but was founded on the principle that British agriculture is an underserved segment with respect to banking. The Bank exists to bring excellent and knowledgeable banking services to British farmers, the food supply chain and the rural economy. The sector requires significant and specialist investment to achieve the transition to net zero as set out by UK Government policy and the National Farmer Union (NFU)'s 2040 target. Oxbury recognises that the agricultural sector will require support to address its specific climatic challenges but also to take advantage of its unique position and opportunities in this process.

Therefore, at Oxbury we will actively minimise our carbon footprint and offset any emissions we are unable to eradicate in our standard operations such that Oxbury remains a net carbon neutral company. The Bank aims to deliver operational and financial resilience through both physical and transition risks emanating from the climate breakdown to our stakeholders. Therefore, we will also support our customers to meet their emissions reduction objectives.

Progress in 2021

During 2021 many significant milestones were met by Oxbury, not least with respect to the Bank's own approach to managing climate risk and undertaking an initial baseline of our operations. One of Oxbury's many strengths is its lack of legacy systems and processes, which applies to our climate exposures as well other areas of operations. We have a data-first culture and are investing in cutting-edge financial technology capability, both of which are essential for effective management of climate risk and especially for the provision of climate-positive financial products and services to our customers.

One of the most significant challenges for all banks is to ensure that they have reliable data on which to report financed emissions given the high likelihood that this data is not yet held by individual customers. During both 2021 and subsequently during 2022, Oxbury undertook a range of actions to address this data gap. Oxbury expects that our 2022 report will involve more detail as we improve our data collection efforts and the agricultural sector increases its ability to accurately report on its emissions profile. As such we will be using 2022 as our baseline year which will be reported in our next TCFD report.

Future outlook

As we look ahead to a decade that climate science tells us must deliver real and substantive action to address the climate breakdown, Oxbury will continue to take meaningful steps to play its part. The path to net-zero will not be straightforward and there remains a high degree of uncertainty regarding how the macro economy will develop during this transition. The agricultural sector in particular faces significant transformation in the short, medium and long term.

In line with the spirit of TCFD disclosures, Oxbury is willing to publicly state that we do not have all the answers and that our approach will continue to evolve in line with scientific consensus and against the economic and policy backdrop all businesses face. Key to our future success will be turning novel climate-related work such as this disclosure into business-as-usual operations. The challenge is immense and it is up to us to ensure our ambition remains aligned.

JAMES FARRAR

CHIEF EXECUTIVE OFFICER

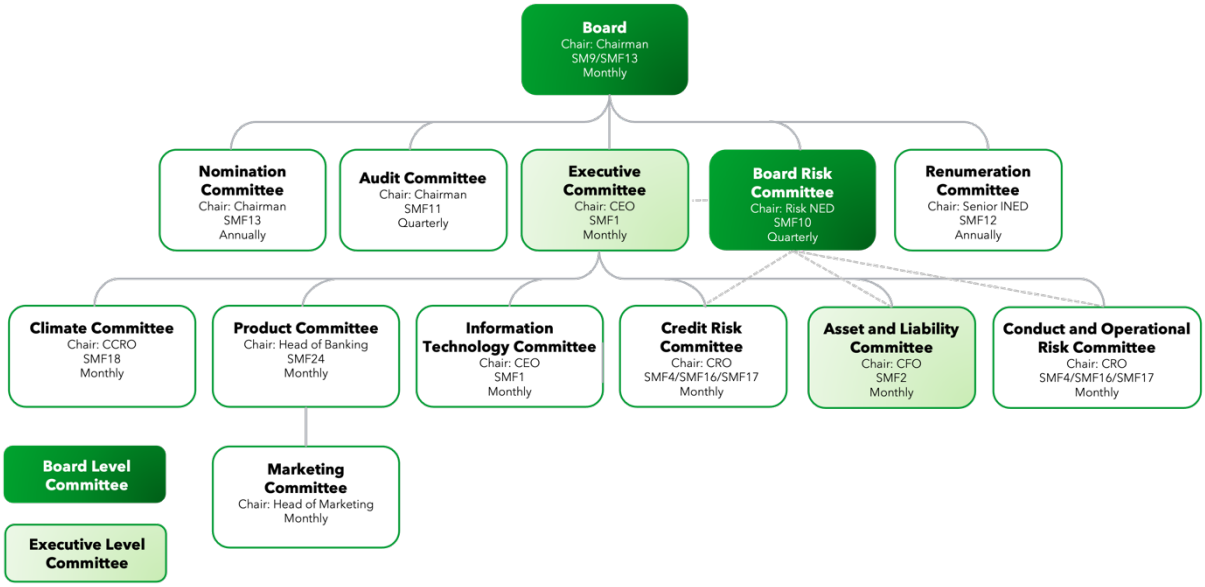
31 DECEMBER 2022

1. Governance

Oxbury's corporate governance framework is designed to ensure the independence of the Board and support its ability to efficiently oversee the effectiveness of the management team in executing the Bank's strategy within the Board's risk appetite.

Figure 1: Governance of Oxbury Bank Plc below provides details of the Board and executive committees within Oxbury.

Figure 1: Governance of Oxbury Bank Plc



Oxbury Board's oversight on climate risk and opportunities

The Board is comprised of eight members including:

- Independent non-executive Chair,
- Three independent non- executive directors,
- Two investor nominated non-executive directors,
- Chief Executive Officer, and
- Managing Director.

The Board is supported in discharging its responsibilities by five sub committees set out in Table 1: Board committees.

Table 1: Board committees

Committee	Responsibilities
Oxbury Board	• Sets the values and standards by which the business operates; • Responsible for the development, approval and monitoring of strategy, • Reviews business and financial performance, as well as the treatment of customers, • Ensures effective systems and controls are in place for risk management; • Responsible for management of climate risk
Board Audit Committee	• Directs and reviews financial reporting and internal control
Board Risk Committee	• Guides the management of the risks to which Oxbury is exposed
Board Nomination Committee	• Leads the process for appointments to the Board; • Succession planning for the Board and Executive Committee
Board Remuneration Committee	• Directs remuneration policy • Supports ongoing delivery of sustainable performance
Executive Committee	• Manages the Bank's business operations on a daily basis • Implements the Bank's strategy • Raises and directs capital and liquidity • Delegates to sub-committees to implement specific elements of strategy and business operations including the appointment of the Climate Committee

Management's role in climate risk in assessment

The Climate Committee of the Bank is a sub-Committee of the Executive Committee. The Committee was constituted in May 2021 and met six times during 2021.

It is chaired by the Chief Customer and Regulatory Officer (CCRO), who holds the individual responsibility for the management of climate related financial risks in line with the Senior Managers and Certification Regime (SM&CR).

This Committee membership comprises the:

- Chief Risk Officer,
- Financial Crime Manager

- Financial Controller; and
- Head of Sustainable Banking.

Attendees include representatives from Relationship Management, Product Development, Compliance and Data Management.

The Committee meets on a quarterly basis, or more frequently as required, and reports quarterly on its remit to the Executive Committee. The Terms of Reference of the Committee are reviewed on at least an annual basis and a Committee Effectiveness assessment is also undertaken at least once a year.

The Chief Customer and Regulatory Officer:

- Produces a climate risk report on a bi-monthly basis for the Board of Directors
- Supports other sub-committees of the Board and the Executive Committee on their oversight and management of climate risks
- Is also responsible for the identification of product-specific opportunities that can enable to bank to meet its objectives with respect to climate-related lending
- Introduces such opportunities to the product governance process in line with the Product Governance Policy of the Bank. All new product approvals are subject to a pre-authorisation review of the potential climate risk and other ESG impacts.

Figure 2: Governance of Climate Risk

Risk Appetite Statement

The Board is responsible to determine Oxbury's overall risk appetite across risk categories. The current Risk Appetite Statement of the Bank was approved by the Board of Directors in November 2021 and covers both financial and non-financial risks.

The primary risks identified in the Risk Appetite Statement are:

- Climate and environmental risk;
- Credit risk;
- Conduct, legal and compliance risk;
- Financial risk; and
- Operational risk.

These categories inform the development of the Risk Appetite Statement, the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process and the risk registers

The Risk Appetite Statement:

- Sets out the types of risk expected;
- Includes the tolerances that the Board of Directors are prepared to accept in the delivery of the strategic objectives of the bank;
- Is considered in all business decisions and influences operational practices.

The Bank's policies and procedures are reviewed regularly to align to the most recent Risk Appetite Statement. Knowledge of the overall risk appetite across the bank promotes a culture where employees understand the risks that impact their business area and are suitably equipped to address these in a proportionate manner through shared behaviours.

The Risk Appetite Statement consist of qualitative statements that describe the required outcomes of the bank's operation supported by quantitative metrics which set limits on the acceptable level of risk across the primary risks. In line with the Risk Management Framework (RMF), the metrics are also aligned to the secondary risk categories within each primary risk category. The Risk Appetite Statement also contains potential management actions should the appetite not be met or is at risk of breaching the capacity metrics.

The metrics set out in the Risk Appetite Statement are split into Board- and Executive-level metrics. All Board-level metrics together with any Executive-level metrics outside of

appetite are reported at every Board meeting. All Climate Risk metrics are Board-level metrics.

Risk Management Framework (RMF)

The Risk Management Framework is formulated within the parameters of the objectives set by the Board and overall appetite for risk and is based upon the 'three lines of defence' model, which defines clear and segregated accountability and responsibility for risk management and ensures effective independent oversight of decision-making through clear governance.

Figure 3: Risk Management Framework across the three lines of defence

The lines of defence are set out in Table 2: Lines of defence:

Table 2: Lines of defence

	Consists of:	**Responsibilities:**
First line	All operational business areas make up the first line of defence, including senior management: • Operations, • Relationship Management, • Technology, • Human Resources, • Finance, • Programme Management, • Management Information, • Product, and • Communications & Marketing	It is incumbent on all employees to understand the risks in their specific business area, including climate related risks. All business areas: • Operate within the Risk Appetite set by the Board; • Identify and own, through use of risk registers and other tools, the management of risks associated with that area's activities; • Manage any outsourcing arrangements for which that area has responsibility; • Set their own levels of tolerance within the Risk Appetite Statement; • Ensure to undertake own quality assurance to meet agreed standards; and • Provide accurate and timely risk management information.

Second line	The second line, led by the Chief Risk Officer, comprises: • Credit Risk, • Collections, • Compliance, and • Financial Crime Oversight.	The second line: • Operates independently from the first line; • Oversees and monitors the first line's adherence to the Risk Appetite Statement and relevant policies and procedures, including those related to climate risk; • Reports to ExCo and its sub-Committees as well as the Board and its sub-Committees on this adherence; • Is responsible for developing Oxbury's Risk Management Framework including anticipating emerging risks and insights; • Performs regular reviews of the Risk Management Framework and Risk Appetite.
Third line	Internal Audit (currently outsourced) and External Auditors are independent from both the first and second lines.	The auditors are responsible for: • Conducting risk-based audits, for which the 2022 plan has been approved, of the effectiveness of the first and second lines on discharging their risk responsibilities; • Assessing the effectiveness of the risk identification by both the first line of defence and the risk function as second line of defence; • Assessing whether the reporting of risk to senior management and the Board of Directors is effective; • Conducting regular reviews of the bank's policies, procedures, systems and controls

Risk Categorisation

Oxbury has segregated the spectrum of risks that the bank will manage into 5 categories of which Climate and Environmental Risk is a primary category. At this stage, a number of key individual risks have been identified within these categories as set out below in Table 3: Risk categorisation.

Table 3: Risk categorisation

Risk Category	Key individual risks
Operational Risk	• Key person risk • Staff competence and retention • Supplier management • Business continuity • Cybercrime • Reputation • Infrastructure not resilient • Third-party outsourcing reliance • Change management • Remuneration Policy Risk
Credit Risk	• Bad debts arising from poor lending decisions • Failure of counterparties • Lending concentration risk • Residual risk

Conduct, Legal and Compliance Risk	• Customer harm • Non-compliance with legal and regulatory requirements • Financial Crime • Reputational Risk
Financial Risk	• Insufficient liquidity • Capital adequacy • Interest Rate Risk in the Banking Book • Risk of excessive leverage • Market Risk • Economic shocks • Insufficient or excessive take-up of product (income volatility) • Competition • Change in legislative or regulatory environment
Climate and Environmental Risk	• Physical Risk – Oxbury Direct • Transition Risk – Oxbury Direct • Physical Risk – Customers and other third parties • Transition Risk – Customers and other third parties

Climate Risk

Qualitative Climate Risk Appetite Statement

As Oxbury, we:

- Understand that we have an obligation to manage and mitigate climate-related financial risks and the impact of our activities, both direct and indirect on the environment;
- Have an appetite to manage these proportionate to the size of our business and against the context of the evolving nature of climate risk management;
- Accept that our overall risk appetite may have to be fluid as a result of the evolving nature of climate risk management;
- Have no tolerance for doing nothing both with respect to our own activities; and therefore
- Expect that our customers will also have intentions to act even if these are yet to be acted on.

Climate Risk Identification

Oxbury identifies climate risks through existing risk policies and processes, including major prudential risk reviews such as the Internal Capital Adequacy Assessment Process (ICAAP). This is supplemented through the TCFD process and outcomes are integrated accordingly.

Oxbury employees are encouraged to stay up to date on climate-related developments in both agriculture and the broader economy. It is the responsibility of the Climate Committee

to consolidate the collective knowledge and escalate and incorporate potential risks or opportunities.

Climate Risk is subject to the Climate Risk Policy, itself a sub-policy of the Bank's Environment, Society and Governance (ESG) Policy. The Climate Risk policy is reviewed on an annual basis.

The definitions of Physical Risk and Transition Risk (which are direct risks for Oxbury and indirect risks for Oxbury in relation to customers and other third parties) used by the Bank are:

Physical Risks arise from factors relating to specific weather events (such as heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures). The crystalising of these physical risks leads to physical damage to financial assets (such as property) and increased credit risk and insurance costs. Direct physical impacts of climate change on the Bank, its customers and wider stakeholders could manifest as an Operational Risk, Financial Risk or Credit Risk. Indirect physical risks are where these same physical risks are pertinent to the bank's wider stakeholders, in particular the bank's employees, suppliers and customers.

Transition Risks arise from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment, including:

- climate-related developments in policy and regulation;
- the emergence of disruptive technology or business models;
- shifting sentiment and societal preferences; or
- evolving evidence frameworks and legal interpretations.

These risks will affect business strategy (and its viability) through to asset valuations.

These are the first-order risks and may influence one or more sub-risks of those top-level risks as set out in the Risk Management Framework. It should be noted that both Physical Risk and Transition Risk are seen by Oxbury as potentially non-independent, for example, should transition risk be low, then the likelihood of physical risk is likely to be increasing over time, with the corollary that, to minimise significant physical risks, transition risk may be high and that there is a related time-variance consideration as a result.

Potential climate risks are reviewed on a continual basis by the Chief Customer and Regulatory Officer alongside the Chief Risk Officer and categorised for importance via the framework set out below in Table 4: Transition and Physical Risk Framework.

Table 4: Transition and Physical Risk Framework

Risk Type	Sub-Type	Climate Related Risks
Direct Transition Risk	**Conduct, Legal and Compliance Risk**	• Bank fails to adequately anticipate or prepare for regulatory or legislative requirements
		• Bank won't extend further lending to non-aligned customers after a certain period
		• Bank does not sufficiently account for climate risk, damaging reputation via non-climate-aligned lending
		• Bank's own operations are not climate-aligned leading to negative reputation
		• Bank does not engage sufficiently openly with customers at risk of severe climate related-risks
		• Changing approach to climate-risk management at incorrect pace to recruit or retain specialist staff who may or may not share the same value set
		• Staff incorrectly assess climate risk and/or incorrectly communicate with customers due to lack of training
		• Product design and management does not support climate-aligned customer activity
	Credit Risk	• Existing and future physical risks to customer not adequately assessed
		• Existing and future transition risks for customer not adequately assessed
		• Changes in market for products not anticipated by customers
		• Too many borrowers in same sector are liable to same market changes and forces
	Financial Risk	• Farmers not aligned to transition timetable (either too early or too late) suffer from lack of profitabiltiy and ability to repay
		• Oxbury is unable to match a competitors initiaves should they focus on sector-wide approach
		• Changes in regulation require change to capital adequacy strategy
		• Inability to price climate-aligned lending appropriately given market dynamics
Direct Physical Risk	**Operational Risk**	• Increased risk of damage to company property or personnel from extreme weather frequency and severity increase
		• Increased risk of damage to a material outsourced supplier provision as a result of changing climate

We acknowledge that physical and transition risks may manifest across the short, medium and long-term. Across all time horizons, the following climate risks in Table 5: Primary Risks to Climate Risk Management have been identified as the primary risks.

Table 5: Primary Risks to Climate Risk Management

Risk	Physical (P) /Transitional (T)	Short Term	Medium Term	Long Term
Failure of counterparties & Lending concentration Underestimates of borrowers exposed to climatic stressors such as coastal erosion, climatic -linked crop failures, animal mortality or reduced yields from heat stress. Transitional changes in input prices may also cause the failure of counterparties through increased costs such as Electricity, Natural Gas and agricultural chemicals. Over concentration to one sub-sector of the food and farming landscape.	**P/T**		☑	☑
Customer harm Volume and value of non-climate supported lending exceeds a reasonable threshold, alongside volume/value customers identified as negative sentiment to climate positive practices exceeds target level.	**P/T**	☑	☑	☑
Non-compliance with legal and regulatory requirements Bank must maintain on plan to implement current regulatory requirements, alongside staying on track for future regulation that comes into force. Failure to do so could lead to financial or operating penalties.	**T**	☑	☑	☑
Reputational Risk New products are rolled out without proper climate risk assessment, alongside the banks own Scope 1 & 2 emissions exceeding industry averages and leading to negative public scrutiny.	**T**	☑	☑	☑
Staff competence and retention Staff fail to retain latest regulatory or scientific understanding of climate change risk.	**T**	☑	☑	☑
Competition / Insufficient or excessive take-up of product Market share of agricultural lending becomes too large taking or volume of customer-rejected offers due to climate conditions prevents bank from operating.	**T**		☑	☑
Data Availability Sufficient data is unavailable either in the wider market or at the individual customer level for Oxbury to be able to adequately assess climate risk metrics	**P/T**	☑	☑	☑

Evolving climate-related risks and opportunities to the Bank's business, strategy, and financial planning are managed through a combination of:

- climate risk policy and the risk management framework previously detailed,
- team expertise in assessing the potential for new products, and
- on-site relationship managers assessment of the climate resiliency of our customers.

We are also continually assessing the accuracy and availability of relevant data to ensure we are able to accurately measure, report and validate our approach to climate risk management. Appropriate reporting and management roles are assigned across the business, with the Climate Committee acting as the forum and central consolidation of climate-related discussion as outlined in the Governance Section of this Report.

3. Strategy

Agriculture comprises the majority of land use in the UK. Since 2010 the utilised agricultural land has remained consistent between 17 and 18 million hectares, slightly more than 70% of the total UK land. Approximately a third of this was used for crop production, and an additional 1.1 million hectares consist of woodland. There were 219,000 farm holdings in 2019. Agriculture employs nearly 500,000 people in the UK with horticulture being the most labour-intensive sector.

Although agriculture employs and contributes less than 0.5% to the UK economy, farmers are important land users and the foundation of rural areas where 9.6 million people reside. Oxbury believes that farmers are under-serviced by financial services providers who fail to understand the unique challenges faced by farmers and the Bank was founded to provide appropriate products and services to this sector.

Oxbury is a UK-based specialist bank focused on the food and agricultural value chain. The Bank:

- supports rural communities and the stewardship of natural resources to create a long-term sustainable future;
- uses bespoke technology and industry knowledge to provide relevant financial products and services to agribusinesses and farmers;
- partners with stakeholders across the sector to create sustained value for customers, communities, investors and shareholders; and
- enables the food and agricultural sector's transition to a net zero economy.

In June 2019, the UK government passed legislation to reduce emissions by 100% compared to 1990 levels which would make the country net zero by 2050. Research indicates that up to 20% of UK agricultural land will have to be converted to woodlands, bio-energy, peatlands restoration and overall land use diversification to meet the country's target of net zero by 2050. This implies increased efficiency in food production and productivity to allow land to be released for climate change mitigation[1]. The National Farmers Union has developed a strategy that aims to ensure that the UK agricultural sector will achieve net zero by 2040 based on three pillars namely:

1. Boosting productivity and reducing emissions

[1] Reay, D.S. 4 August 2020. Land Use and Agriculture: Pitfalls and Precautions on the Road to Net Zero in Frontiers in Climate. https://www.frontiersin.org/articles/10.3389/fclim.2020.00004/full. (Accessed 26 May 2022)

2. Farmland carbon storage
3. Coupling bioenergy to carbon capture, utilisation and storage.

It is clear that a changing regulatory environment and physical operating conditions will have a profound effect on our food and farming customers over the short-, medium- and long-term.

Categorisation of risks and opportunities

In order to assess the risks and opportunities over different time horizons, we categorise these into short-term, medium-term or long-term considerations. Risks and opportunities can reside in multiple categories where applicable. This enables us to prioritise and design our future commercial strategy through an informed lens. We align our time horizon categories approximately to maturity of our loan book, plus an additional 5-year buffer taking the long-term period to 30 years which results in these time scales set out in Table 6: Definition of time scales used in this report:

Table 6: Definition of time scales used in this report

Short-term	Less than 5 years
Medium-term	5 to 9 years
Long term	10 – 30 years

Within the short term, climate risk is managed in line with the Risk Management Section of this report, with specific reference to Table 4: Transition and Physical Risk Framework above.

The food and farming sector, despite having risks, presents a number of lending opportunities as farm businesses adapt to new operating environments, with capital outlays required. These are summarised in Table 7: National Farmers Union (NFU) "Pillars" for Net Zero 2040 aligned to Oxbury loan product categories and mirror the 'Achieving Net Zero' pillars[2] outlined by the National Farmers Union. Oxbury already runs a progressive product lending suite including a cross section of food and farming business that aligns with the opportunity pillar classification.

Climate-related loans are where:

- the purpose of the loan, and/or

[2] https://www.nfuonline.com/updates-and-information/achieving-net-zero-meeting-the-climate-change-challenge/

- the protocols used by the farmer *ex-ante* with respect to the purpose of the loan, and/or
- the original purpose of any refinanced loan,

means that Oxbury can categorise the loan against the three Pillars for Net Zero as set out by the National Farmers Union.

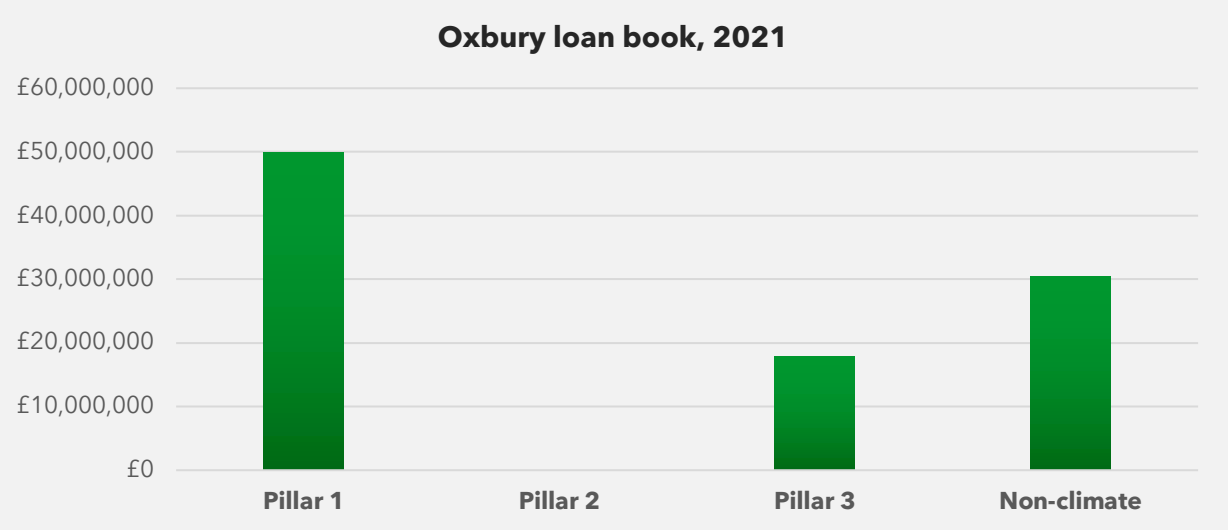
Outcome in 2021

The closing 2021 loan portfolio of £102,476,672 saw 70% of current lending by value directed at climate-related opportunities. The split between the three pillars is reported below in Figure 4: Oxbury loan book, 31 December 2021 allocation.

Table 7: National Farmers Union (NFU) "Pillars" for Net Zero 2040 aligned to Oxbury loan product categories

Climate Linked Opportunity	NFU Description	Loan Purpose Sub-Categories	Oxbury loan book as at 31 December 2021 (£)
Pillar 1 – Boosting productivity and reducing emissions	Improving farming's productive efficiency to reduce our greenhouse gas emissions - enabling farming to produce the same quantity of food, or more, with less inputs, in smarter ways.	• Fertiliser Efficiency • Soil Health • Other Precision Farming • Feed Additives • Ruminant Health • Genetic enhancement • Anaerobic Digestion • Energy efficiency	49,941,750 (49%)
Pillar 2 – Farmland Carbon Storage	Farmland carbon storage in soils and vegetation - improving land management and changing land use to capture more carbon, through bigger hedgerows, more trees and especially more soil organic matter.	• Soil Carbon • Hedgerows • Woodland • Peatland and Wetland	0
Pillar 3 – Coupling bioenergy to carbon capture, utilisation and storage	Boosting renewable energy and the bioeconomy to displace greenhouse gas emissions from fossil fuels and to create greenhouse gas removal through photosynthesis and carbon capture.	• Bio-energy • Bio-material • Land-based renewable energy	17,874,535 (17%)

Figure 4: Oxbury loan book, 31 December 2021 allocation



Scenario Analysis

To assess our operation's resilience to both physical and transitional risks, scenario analyses have been conducted. Three scenarios were adopted from the Network for Greening the Financial System (NGFS) and applied in a food and farming context, alongside our own operations. Increasing in severity of global warming the three scenarios adopted were:

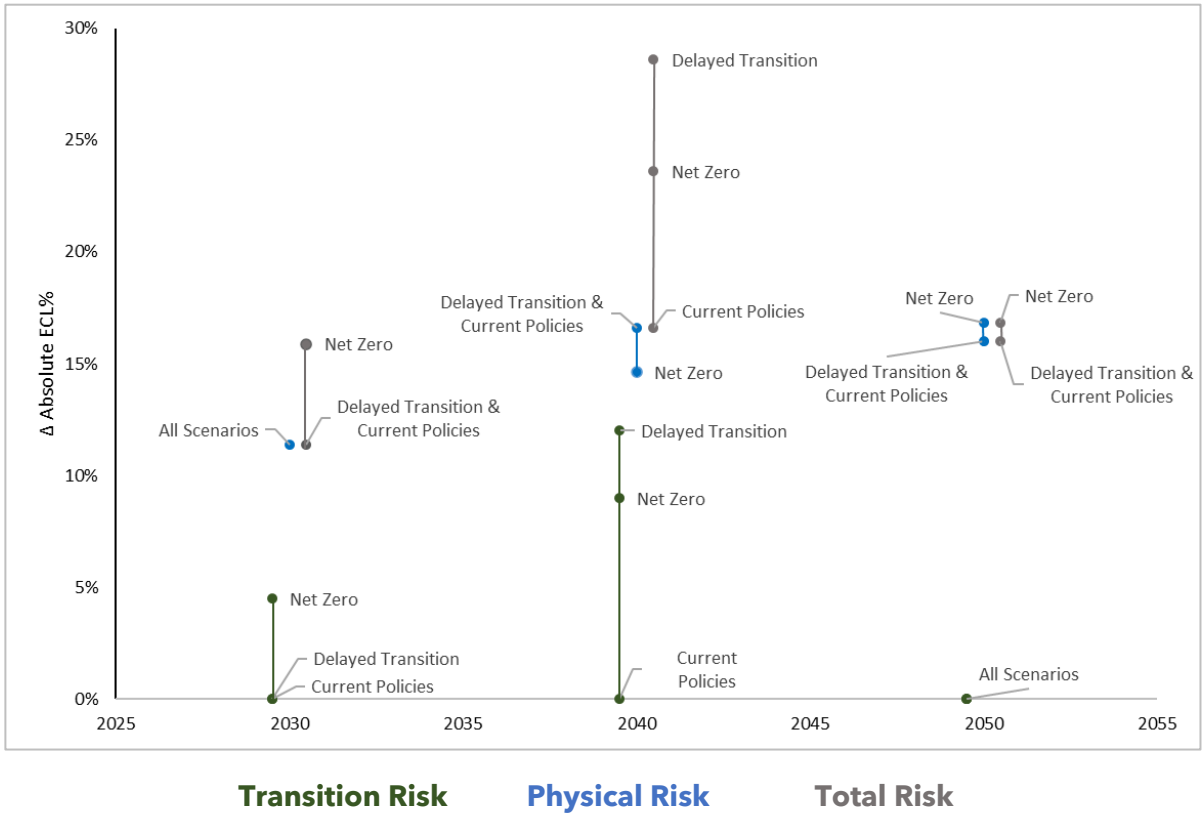
Table 8: Climate scenarios applied

Scenario	Definition	Impact
Net Zero 2050	An ambitious scenario that limits global warming to 1.5°C through stringent climate policies and innovation, reaching net zero CO2 emissions around 2050. This scenario is thus compatible with the long-term temperature goal of the Paris Agreement	In the period up to 2030 this scenario has the most significant impact. Transition risk is condensed within a short period of time as policies and practices change to meet the ambition, but then flattens out as change is complete.
Delayed Transition	Assumes annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2°C by 2050	This scenario has a severe impact in the period between 2030 and 2040 as all changes must occur within a condensed time period and at larger scale.
Current Policies	Assumes that only currently implemented policies are preserved, leading to a global warming by up to 3°C by 2100 and severe associated climate impacts	Limited impact up to 2050 as no significant transition is required from the sector. After 2025, physical risk will manifest itself and adaptation will be required to continue food production under higher temperatures.

Under each scenario, key identified risks were assessed at 2030, 2040 and 2050, with the potential impact of the risk linked to the probability of default (PD) in our existing loan portfolio. Subsequently the change in Expected Credit Loss (ECL) was calculated, which enabled us to internally approximate the potential impact of each scenario under different assumptions of loan book growth. Impacts were scaled back from the most severe scenario of physical risk, by a percentage value of the total. Figure 5: Pathways for Change in Expected Credit Loss under three climate scenarios depicts the change in ECL attributed to both physical and transition at each time horizon, under the three scenarios.

It should be noted that there is significant model risk in relation to this approach. There is no ability to back-test given the newness of the lending book and there are several strong assumptions that have been made into the transmission pathways for both physical and transition risk.

Figure 5: Pathways for Change in Expected Credit Loss under three climate scenarios



Key variables for physcial risks included changes in flood risk and flood risk depth, supported by other climatic variables such expected storm damage, precipitation and air temperature.

To arrive at a change in ECL, comparisons were drawn between the:

- insured value of agricultural land,
- expected loss in a flood event, and
- likelihood of occurrence in comparison to today's frequency.

Transitional risks were approximated primarily with policy risks - both those arising through changes in farm and food business operating environments and the threat of a carbon tax.

The delayed transition pathway is adjudged to be comparable to the Net Zero pathway, but approximately one third more disruptive as when transitional risks are compressed into a shorter time window.

Methodology

The metrics contained in this Report are published in line with the guidance from TCFD and, with respect to financed-emissions with the Global GHG Accounting and Reporting Standard for the Financial Industry as developed by the Partnership for Carbon Accounting Financials (PCAF).

Data collection issues

Oxbury, as with many financial institutions, and indeed many businesses in global agriculture, continues to improve daily on its approach to data collection, interrogation, measurement, verification and reporting. We remain aware that the data we currently hold is not perfect and that many of our customers do not currently collect the data we require to ensure full accuracy in our reporting. We are working with our customers to enable them to be able to efficiently and accurately report on their GHG emissions in such a way as it is meaningful and consistent in both Oxbury and our customers' interests. Where we are unable to use individual customer GHG emissions data, we have used existing enterprise and agronomic data that we and the customer do hold to approximate the emissions profile of a customer, in line with accepted industry standards and supported by the latest academic and industry research into the emissions profile of the agricultural sector.

As a result, Oxbury will formally report its baselines on its first full year of data which is the 2022 year. All goals and targets will be re-calibrated during 2023 to reflect this baseline.

Definitions

In the following tables which set out Oxbury's current emissions metrics, the following definitions are relevant:

Table 9: Definitions

Term	Definition
Scope 1 Emissions	Emissions from fluorinated gas losses and fuel combustion in owned premises or vehicles
Scope 2 Emissions	Purchased emissions from electricity, district heating and cooling
Scope 3 Emissions (Upstream)	Emissions from all upstream emissions including supply chain, business travel, UK waste, working from home and commuting
Scope 3 Emissions (Downstream) or Financed Emissions	GHG emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol. Financed emissions are a key metric to estimate the climate impact of our financing activity on the real economy.
Financing activity	Loans and investments (debt securities and equity shares) on balance sheet
Full-time equivalent (FTE)	The number of full-time employees and equivalents within the organisation calculated on a standard working week
Net Zero	We are informally adopting the Science Based Targets Initiative (SBTi) Net-Zero Standard definition of "net-zero" as: Firstly, reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C-aligned (aka Paris aligned) pathways; and secondly, neutralising any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter
N/K means "not known".	Where a metric is not known, it will be baselined during our second year of operations (2022) to achieve an appropriate baseline for future disclosure
N/A means "not applicable".	This is most commonly used where there is yet to be a status or progress against a target because of there is either only one year of data (i.e. with respect to 2021) or a baseline is not yet established
"Carbon dioxide equivalent" tCO2e means (metric) tonnes of Carbon dioxide equivalent	A standard unit for counting greenhouse gas (GHG) emissions regardless of whether they're from carbon dioxide or another gas, such as methane (CH4)
Absolute Emissions	The physical amount of GHG emitted into the atmosphere in a given time period
Emissions Intensity	The volume of emissions produced against some other relevant unit. Oxbury measures its working capital product emissions intensity as emissions per pound (GBP/£) of product purchased on the facility.
Offsets	A mechanism for claiming a reduction in greenhouse gas (GHG) emissions associated with our business through the removal of, or avoiding the release of, GHG emissions
Network for Greening the Financial System (NGFS)	NGSF's purpose is to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the NGDS defines and promotes best practices to be implemented within and outside of the Membership of the NGFS and conducts or commissions analytical work on green finance including making available a set of scenarios and pathways that can be applied for medium- to long-term risk analysis.

Oxbury report to the Board three high-level metrics as part of its regular risk appetite reporting as set out below in Table 10: Quantitative Climate Risk Metrics.

Table 10: Quantitative Climate Risk Metrics

Metric	Sub Risks	Available Management Actions
Tonnes CO2 emitted by Oxbury per employee (Scopes 1 & 2) Prior to Offset	• Transition Climate Risk • Reputational Risk • Profit Volatility	• Review Supplier Arrangements • Amend processes and procedures • Amend remuneration incentives • Offset emissions
% of new term loan borrowers with a plan to meet their net zero targets	• Physical Climate Risk • Transition Climate Risk • Bad debt arising from poor lending decisions • Residual Risk	• Reduce / Stop new lending • Tighten underwriting criteria • Review / amend product design • Review /amend promotion / sale process • Differentiate pricing
Customer volume % of new term loan borrowing supporting environmental improvements	• Physical Climate Risk • Transition Climate Risk • Bad debt arising from poor lending decisions • Residual Risk	• Reduce / Stop new lending • Tighten underwriting criteria • Review / amend product design • Review /amend promotion / sale process • Differentiate pricing

This approach supports the Bank's ability to set medium-term targets for net-zero and interim shorter-term targets for actions that will support the pathway. For any reductions that cannot be made at the present time, Oxbury, since inception has had a strategy of purchasing UK-based highly-verifiable carbon offsets that both avoid and remove carbon – for Oxbury a focus on Nature-based Solutions in the farmed environment. This has the impact of offsetting Oxbury's "own emissions", which includes all Scope 1 and 2 emissions and the personal footprints of all employees including their commuting impact.

Table 11: Oxbury's Non-Financed Emissions: Metrics and Targets

Metric	Description	2021 Value	Baseline Year	Target Value	Target Year	Goal Status
Headline	Scope 1 and 2 Emissions and Scope 3 Upstream Emissions	N/K	2022	Net Zero	2040	N/A
tCO_2e/FTE	Scope 1 and 2 emissions per FTE	0.07tCO2e	2022	50% reduction	2030	N/A
Purchase of Electricity	% of energy that is purchased from 100% renewable electricity generation	N/K	2022	100%	2025	N/A
Employee Commuting	Reduction in emissions from journeys between Company office and home. Adjusted per employee.	N/K	2022	50% reduction	2035	N/A
Business Travel	Reduction in emissions from journeys made on business purposes. Adjusted per employee.	1.97tC02e	2022	50% reduction	2035	N/A
Office Waste	% of total waste recycled or composted	N/K	2022	100%	2025	N/A
Purchase of Goods	% of goods purchased from companies with net zero targets	N/K	2022	50%	2030	N/A
Purchase of Services	% of services purchased from companies with net zero targets	N/K	2022	50%	2030	N/A

Table 12: Oxbury's Financed Emissions: Metrics and Targets

Metric	Description	2021 Value	Baseline Year	Target Value	Target Year	Goal Status
Lending	Financed Term Lending Scope 3 Emissions (without offsetting)	150,000 tCO2e	2022	Net Zero	2040	-
Lending	Financed Working Capital Scope 3 Emissions (without offsetting)	57,000 tCO2e	2022	Net Zero	2040	-

Table 13: Oxbury's Product-based Goals

Sector	Product Type	Framework	Goal Description	Target Year	Goal Target	Goal Status
Agriculture	Term Lending	UN SDGs	Absolute Emissions Profile	2040	Net Zero	-
Agriculture	Working Capital Lending	UN SDGs	Reduce Emissions Intensity	2030	50%	-
All	All Lending	UN SDGs	50% of lending is SDG-aligned	2025	£1bn	2.76%

Table 14: Oxbury Strategic Portfolio Goals against Scenario Analysis

Goal Name	Goal Description	Scenario Aligned	Scenario	Base Value (Year)	Target (Year)	Goal Status
Portfolio Net Zero	100% of Portfolio is lent to Farms with a Carbon Baseline in Place	Yes	NGFS Net Zero	Not known (2022)	25% (2025)	-
Portfolio Delayed Transition	Emissions intensity from Working Capital Facilities reduced by 50%	Yes	NGFS Delayed Transition	Our 2021 value is 0.23tC02e/£ but we will re-baseline based on 2022 data.	50% (2030)	-
Portfolio Current Policies	25% of Portfolio is exposed to business with at least 25% of energy requirement coming from renewable energy	Yes	NGFS Current Policies	Not known (2022)	25% (2030)	-

Glossary

Acronym	Definition
CCRO	Chief Customer and Regulatory Officer
COP26	2021 United Nations Climate Change Conference of the Parties
Covid-19	Coronavirus disease 2019
ECL	Expected Credit Loss
ESG	Environmental. Social and Governance
FCA	Financial Conduct Authority
GHG	Greenhouse Gasses
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
NFU	National Farmer Union
NGFS	Network for Greening the Financial System
Oxbury	Oxbury Bank Plc
PD	Probability of Default
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RMF	Risk Management Framework
SM&CR	Senior Managers and Certification Regime
SS	Supervisory Statement
TCFD	Taskforce on Climate-Related Financial Disclosures
UK	United Kingdom

TCFD reference table

Pillar	Recommended disclosures	Oxbury's response may be found here:
Governance	Describe the Board's oversight of climate related risks and opportunities	Oxbury Board's oversight on climate risk and opportunities
	Describe management's role in assessing and managing climate-related risks and opportunities	Management's role in climate risk in assessment
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term	Table 5: Primary Risks to Climate Risk Management Table 7: National Farmers Union (NFU) "Pillars" for Net Zero 2040 aligned to Oxbury loan product categories
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Scenario Analysis
	Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario	
Risk management	Describe the organisation's processes for identifying and assessing climate-related risks	Climate Risk
	Describe the organisation's processes for managing climate-related risks	Climate Risk
	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Risk Management
Metrics and targets	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	Metrics and Targets
	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions and the related risks	Table 11: Oxbury's Non-Financed Emissions: Metrics and Targets
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Table 10: Quantitative Climate Risk Metrics