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Financial Institution Sustainability Reporting Benchmark

2024 (for financial years ended 2023/4)

INTRODUCTION

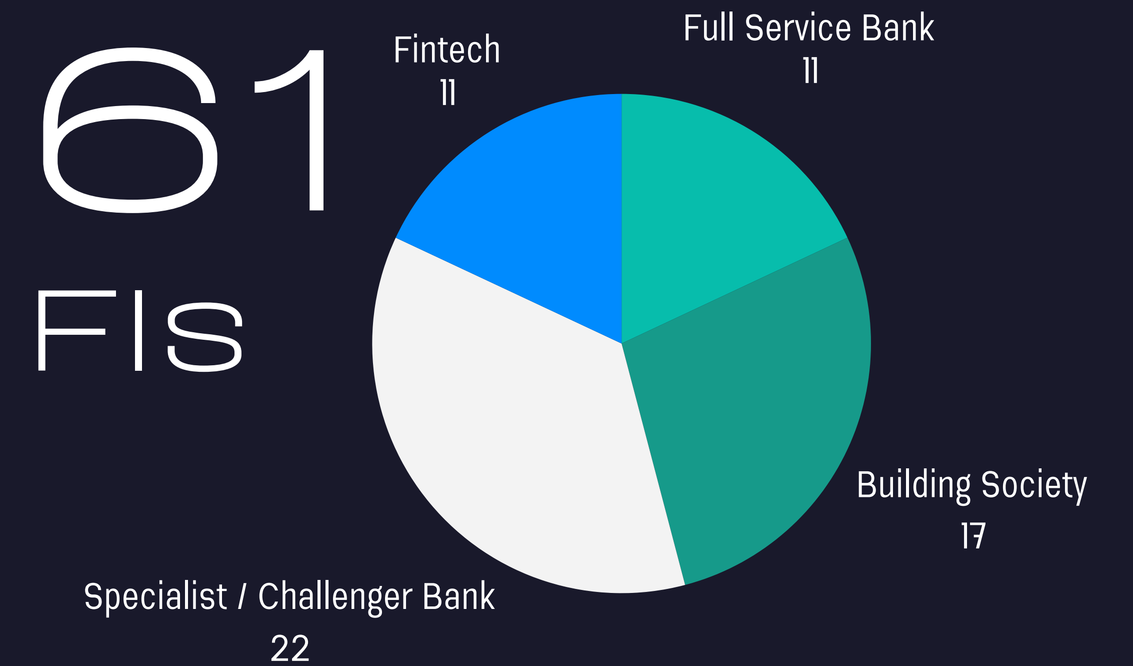
Perigon's annual Financial Institutions Sustainability Reporting Benchmark aims to give anyone involved in sustainability or annual reporting in Financial Services in the UK and Ireland concise insights on where they stand versus peers.

This benchmark is unique in its geographical focus and breadth of institutions assessed: from fintechs to full service banks.

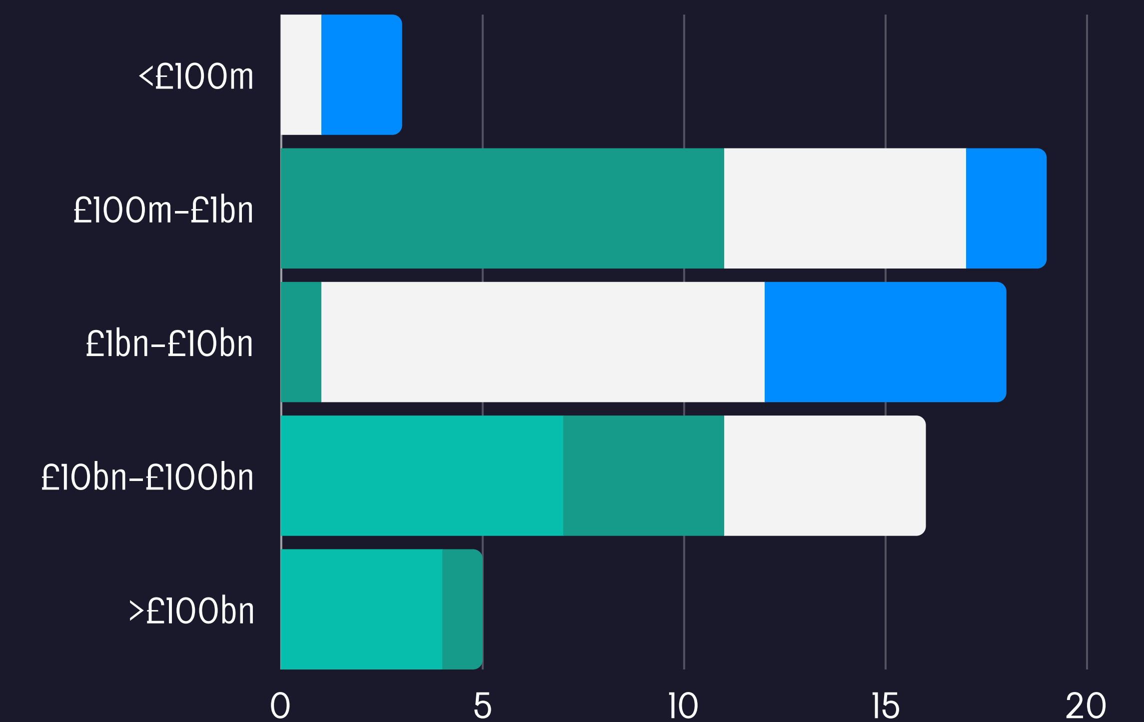
This year, we removed 2 companies from our cohort due to M&A activity and added 9 companies to expand our focus on smaller, regional building societies. A list of all institutions in this year and last year's cohorts can be found in the appendix.

We assessed each of these institutions' latest annual reports and any relevant supplementary documents. For the majority, this encompassed their 2023 year end reporting but timing cut-offs and a variety of year end dates means our 2024 benchmark covers year end dates between May 2023 and April 2024.

You can access last year's Benchmark here.



Split of Cohort by Customer Lending



FOREWORD

Emma Walford
Founding Partner

Welcome to the second of Perigon's Financial Institution Sustainability Reporting Benchmarks. It's always daunting at the start of the process, looking at the mountain of information and analysis we need to climb to produce this report. But this year, like last, we're confident that we've pulled out some important trends that sustainability professionals and anyone involved in year-end reporting in Financial Services should be aware of. And that makes it worth the effort!

It now feels a long time since I was accountable for orchestrating the sustainability reporting process as Group Corporate Communications and Sustainability Director for Virgin Money. The main change in that time has been the growth in TCFD (or Climate-related Financial Disclosures), and I mean that both in volume terms and sophistication. 2023 was the final year of the phased introduction of reporting requirements, with many of the smaller companies in our cohort having to disclose for the first time.

Next year, I expect we will see a similar step up in companies going further and disclosing their first climate transition plans. Meanwhile, I hope you find the wealth of information in this 2024 Benchmark of interest and of use as you work through your priorities for your next set of year-end disclosures.

Common Changes in this Year's Reporting vs. Last

materiality_refresh
increased_scope_three_coverage
new_nature_targets
new_tcfd
new_transition_plan
target_validation
new_secr
new_materiality_approach
increased_financed_emissions_coverage
new_interim_targets
new_net_zero_commitment
increased_scope_coverage
refreshed_strategy
changed_interim_targets

Contents of the Report

Length & Sentiment

Analysis of the quantity and focus of reporting

Materiality

Trends in materiality assessments and opportunities for improvement

Strategy:

Existence and integration of sustainability strategies and common themes

Transition:

Early trends in climate transition plan disclosures and what we can expect this year

Emissions:

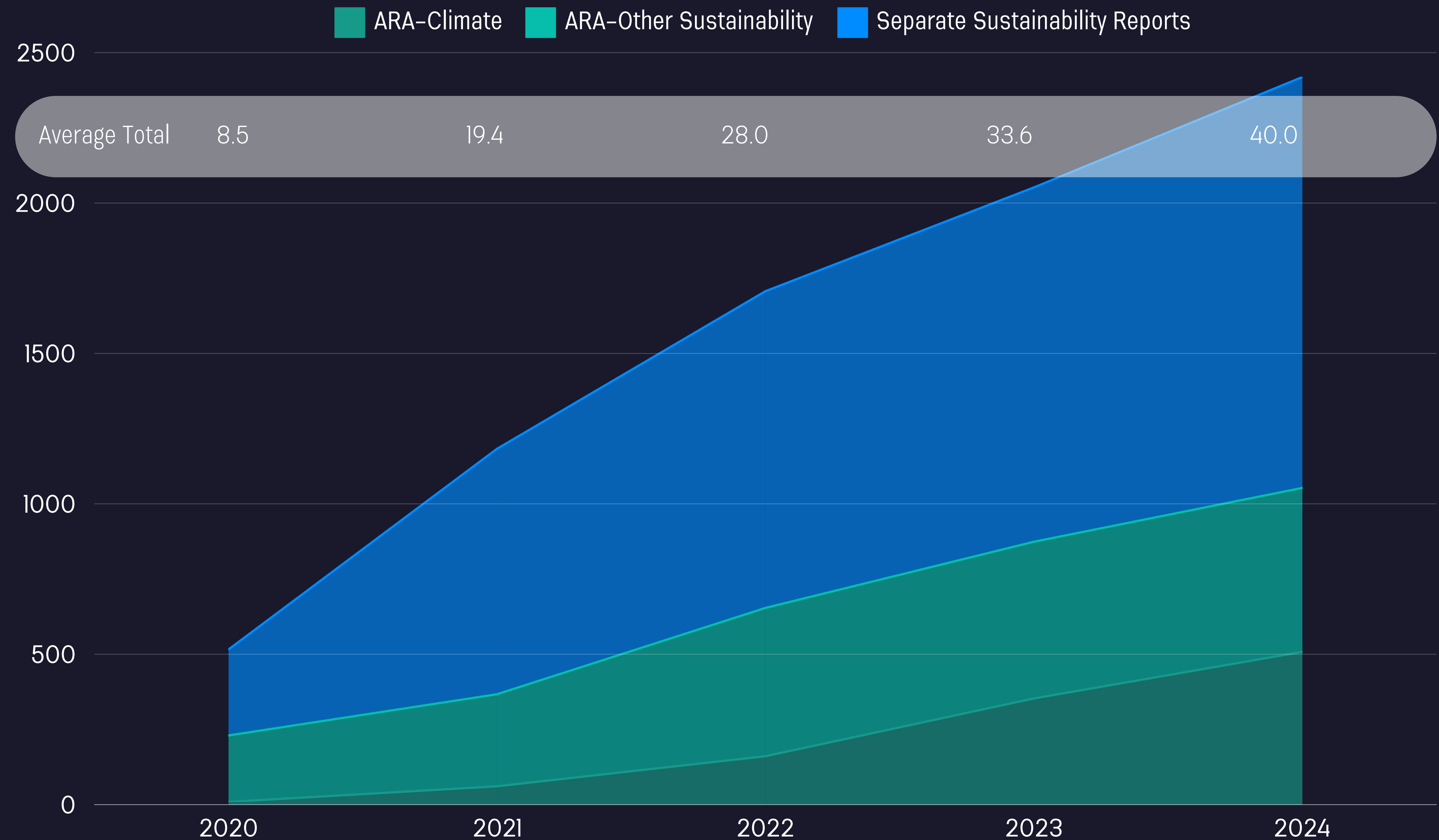
What's happening with GHG emission measurement and net zero / interim target setting

LENGTH & SENTIMENT

For the 61 FIs in our 2024 cohort, we looked back over the previous 4 reporting periods and analysed the trend in the amount of reporting 'real estate' dedicated to sustainability.

At an overall average level, it's clear that climate-related financial disclosure regulations (aka TCFD) have driven a steady increase in sustainability-related Annual Report & Account ("ARA") content, whilst there's also been a headline proliferation in separate climate and other sustainability-focused reports.

The more interesting trends, however, lie in the detail...

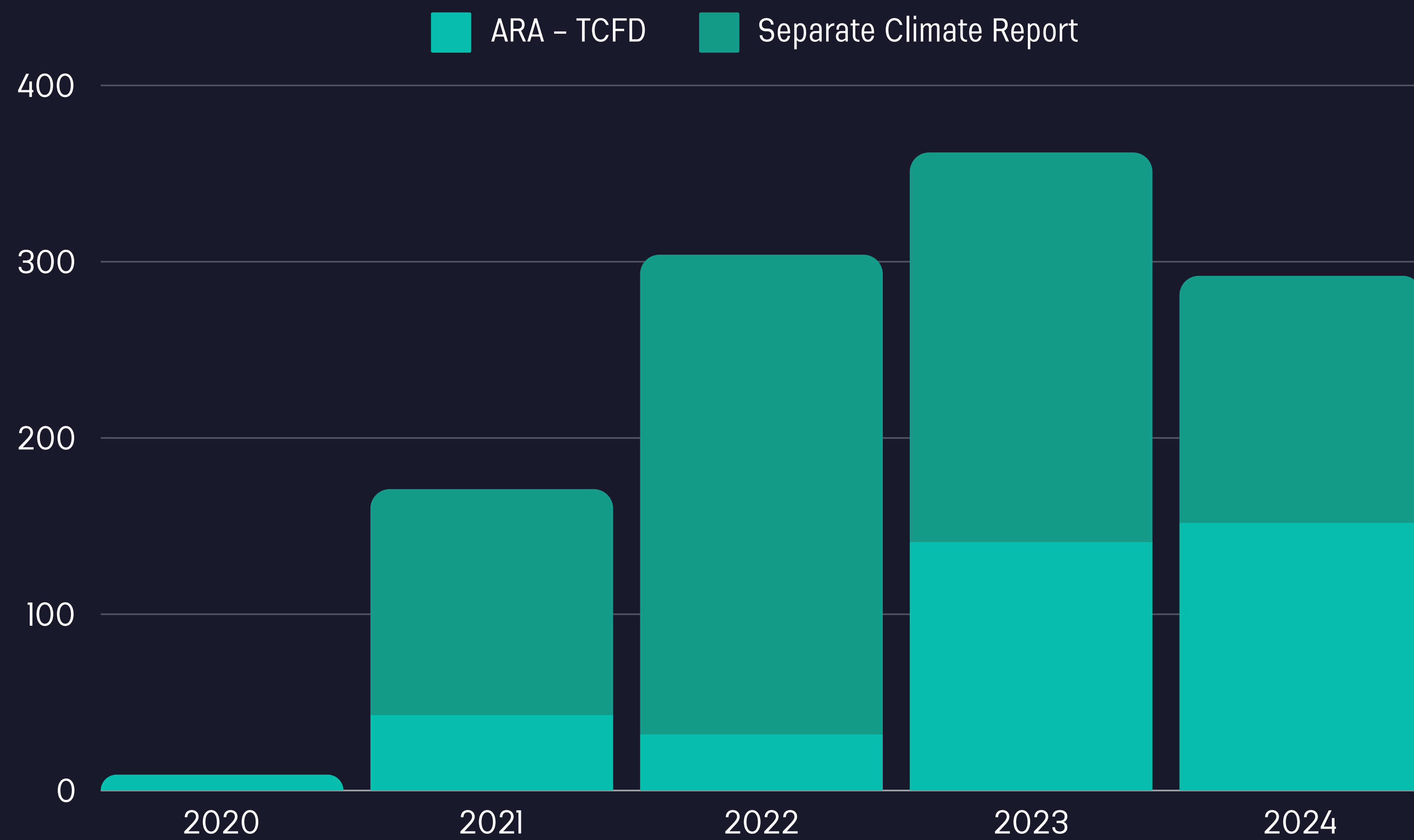


188

was the highest Sustainability Reporting page count in our 2024 cohort (including additional reports separate to the Annual Report & Accounts)

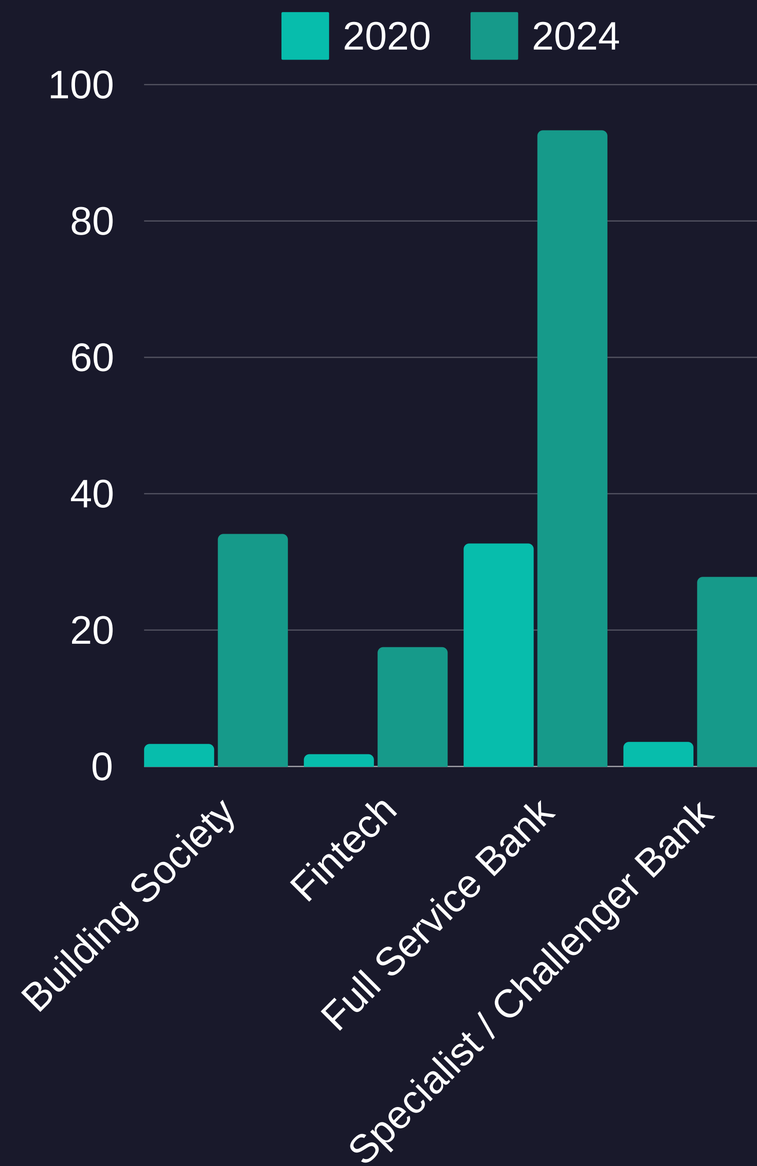
For some of the smaller FIs in the earlier stages of **climate reporting compliance**, or for those undertaking voluntary climate reporting, it may provide helpful perspective to look at the reporting trend from larger FIs. This shows that those having grappled with TCFD requirements for longer have started to reign back on the volume of climate-related content and incorporate more into the ARA rather than in separate reports. The average number of annual climate-related reporting pages for these FIs is now 49, down from a peak of 60 last year.

Total Climate Page Numbers for 6 Largest Full Service Banks

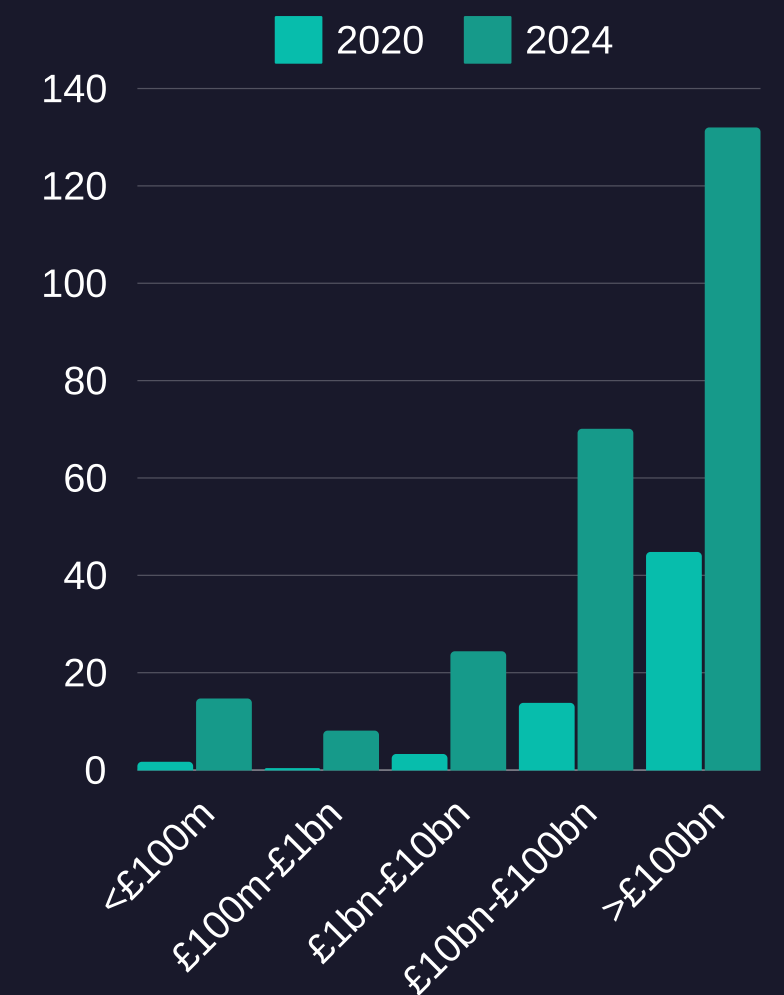


Of course the picture differs (as it should) when we segment our cohort by **sub-sector and size**. We looked at the change in average sustainability page count (ARA and separate reports) between 2020 and 2024, split by type of institution and by 2024 customer lending bracket.

Average Page Count by Sub-Sector



Average Page Count by Lending



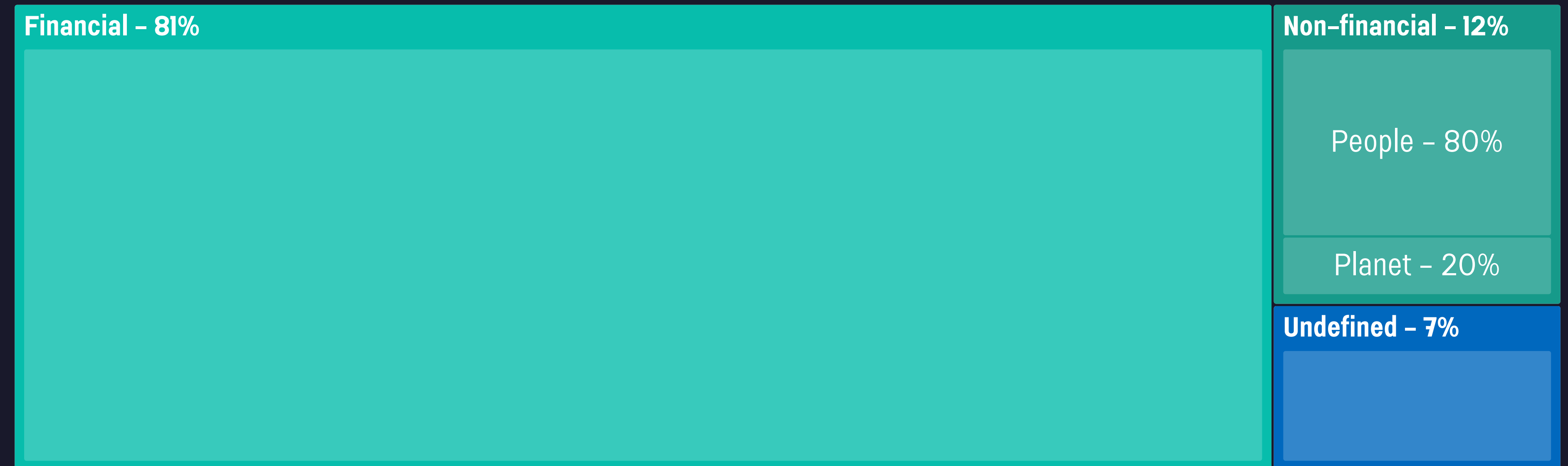
Page counts are a blunt tool so we also programmed natural language AI to understand the balance of text between financial and non-financial.

We analysed only the front section of the ARA (in most cases, up to where the Governance section or Directors' Report starts) for 51 of the FIs in our 2024 cohort. The remaining 10 did not produce reports that were in a format the AI could read.

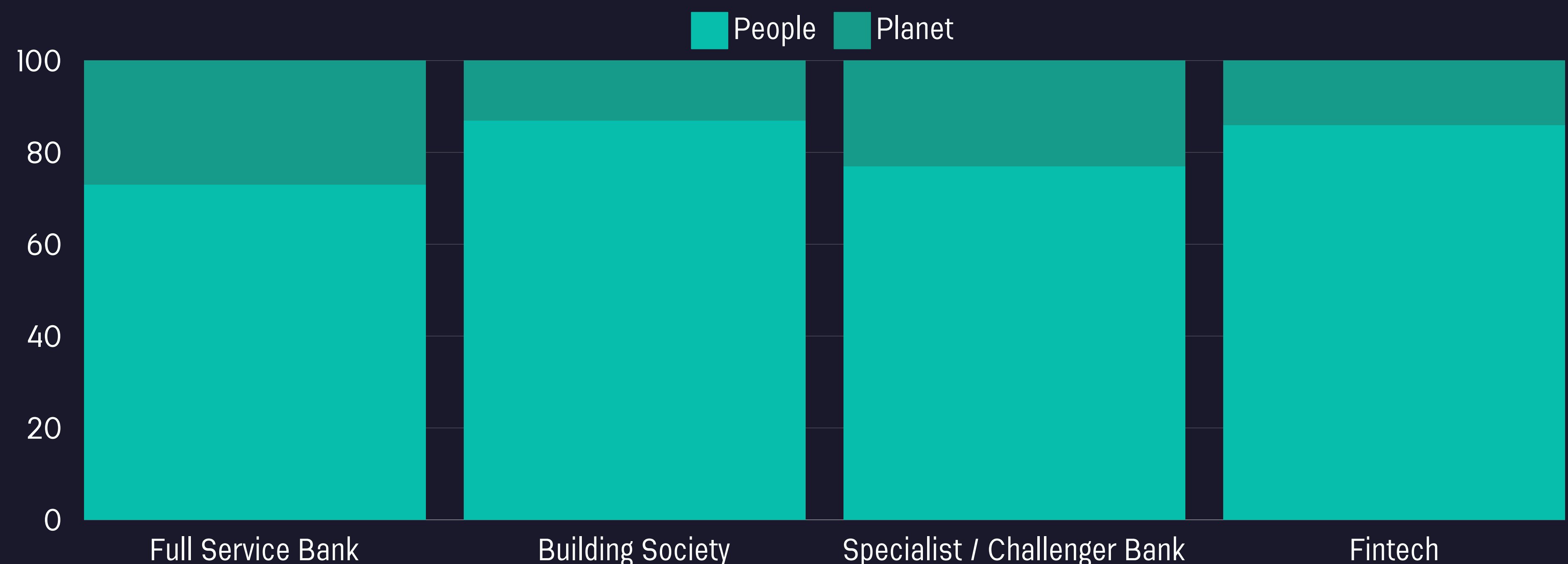
We programmed key words and phrases into the AI and asked it to look also at the sentiment of the surrounding sentences. The results:

- Content with a financial sentiment ranged from 62% to 95%, averaging 81%
- On average 7% of the content could not be defined by the AI (even after several iterations of learning)
- Content with a non-financial sentiment was overwhelmingly focused on People, despite the rise of Climate-related Financial Disclosures (particularly amongst Building Societies and Fintechs who often have a core Social purpose)

Sentiment of Text in ARA Front Sections



Non-financial Content Focus by Sub-sector

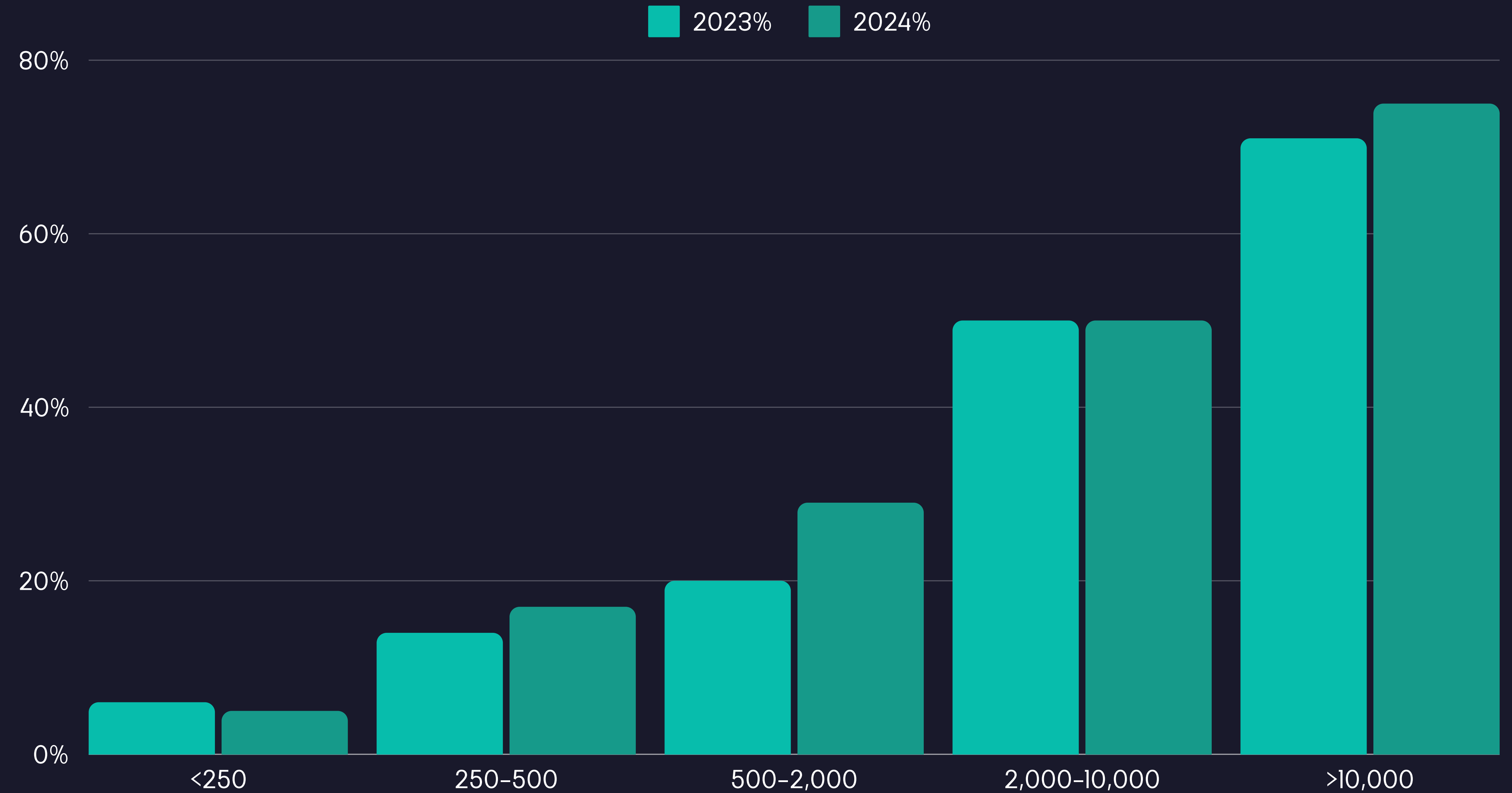


MATERIALITY

A Materiality Assessment is where a company follows a structured process to identify which sustainability-related impacts, risks and opportunities are most significant.

Materiality exercises are a more common undertaking for larger FIs (over 70% of those with more than 10,000 employees have done one). This year, two more FIs in the 500-200 employee band included commentary on materiality in their ARA but overall we have not seen much movement in headline numbers.

Materiality Exercises Undertaken by No. Employees

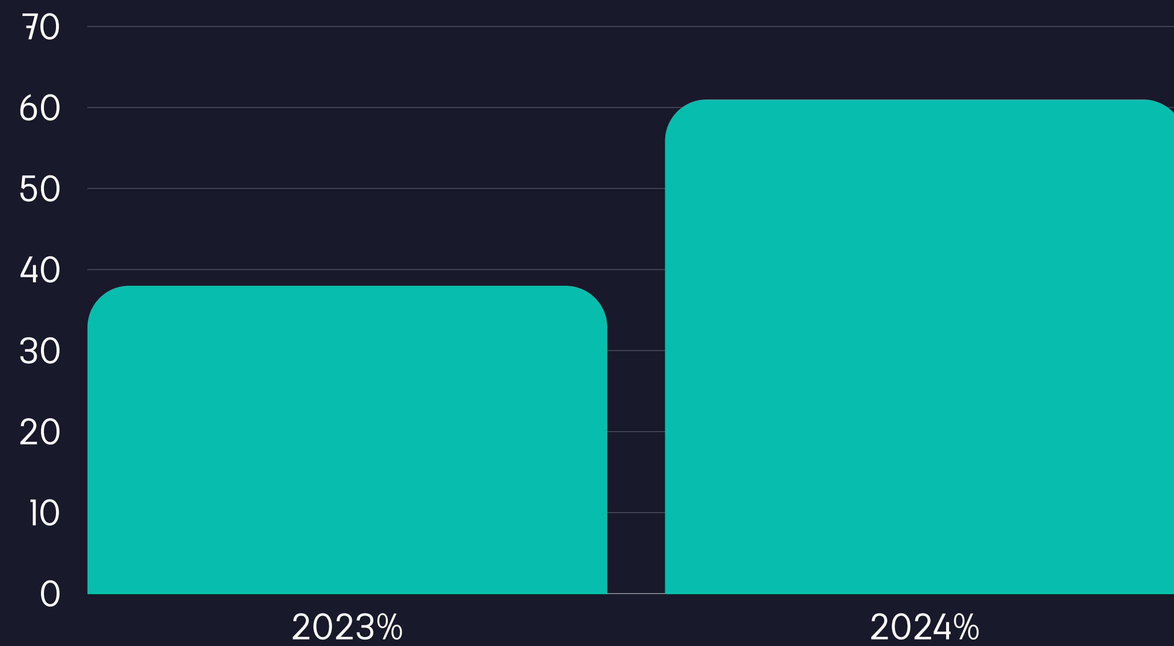


30%

of our 2024 cohort stated they had undertaken a Materiality Assessment (broadly in line with last year's proportions)

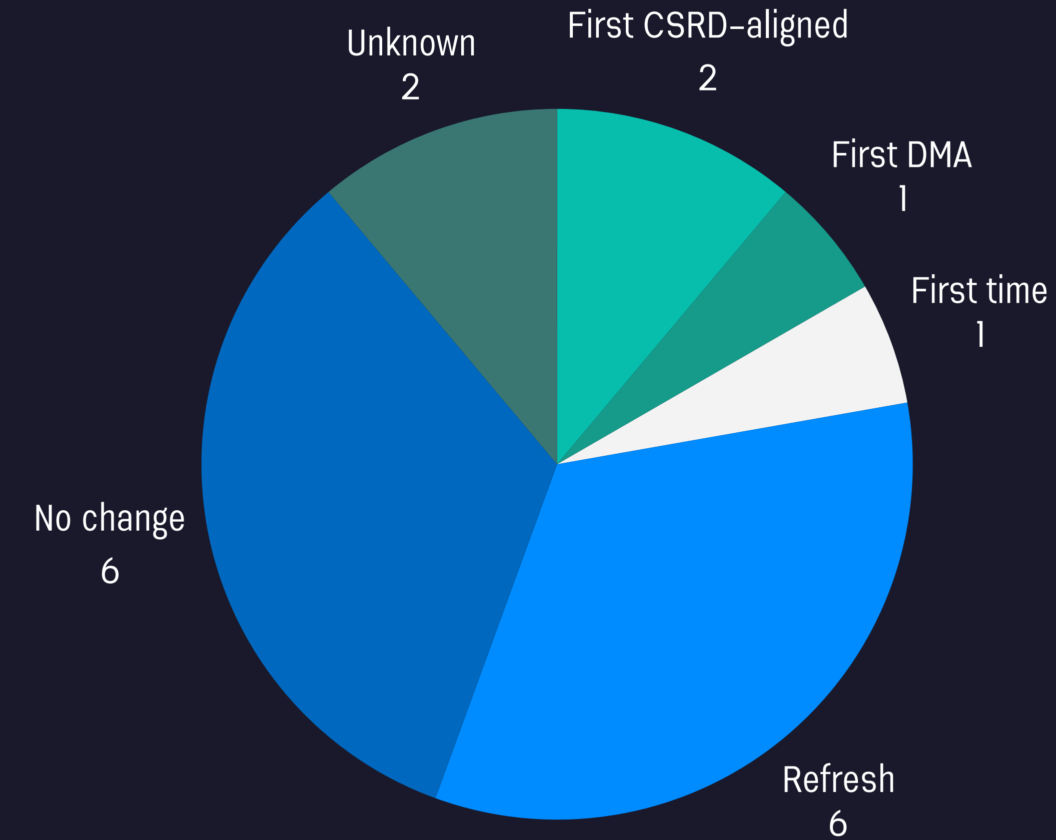
This year we have seen a trend towards companies upgrading their materiality approach to one of a **Double Materiality Assessment** ("DMA"). This approach assesses a company's impact on people and the planet as well as considering the financial risks and opportunities from "ESG" matters. It underpins new CSRD legislation in Europe which comes into force from this year and, we argue, will also need to underpin an ISSB-aligned approach as you cannot accurately assess financial materiality (required by ISSB) without understanding your impact.

% Materiality Assessments that are 'Double'



Delving further, we can see two of our Irish banks undertook their first **CSRD-aligned DMA** this year. In the UK, two conducted their first DMA and one did its first assessment but didn't meet the criteria for it qualify as 'double'. Six FIs refreshed their previous analysis, resulting in four explicitly stating that this resulted in a small change to material issues.

2024 Approach to Materiality



80%

of our 2024 cohort have not (according to their disclosures) undertaken a Double Materiality Assessment, making them less sighted on risks and opportunities for impact in the sustainable economy of the future.

In last year's report we examined shortcomings of some of the cohort's materiality exercises. With the exception of the two Irish banks who made progress towards their first CSRD-aligned materiality approach, many of these shortcomings prevail into 2024.

Regardless of an organisation's size, stage or sector, we believe double materiality can play an important role. We always consider it (in a proportionate way) when embarking on a client strategy-setting process. Failure to do so renders you blinkered and, therefore, more exposed to unforeseen risks, less able to act on new opportunities, and less efficient in your use of resources, including time and money.

What's clear from our Benchmarks is

1. Not enough FIs are assessing their double materiality
2. Those that are often are not approaching it in a truly value-adding way

There is a big opportunity to break down the barriers to materiality and make it proportionate, targeted and easily understood, allowing more FIs to benefit from the results.

Insufficient focus

There's a tendency to list numerous 'material' issues whereas the true strategic value in a materiality exercise is to enable you to pinpoint and focus on a few areas of greatest significance.

Value chain blindness

Many FIs focus their materiality assessment on their direct operations rather than explicitly considering the far more significant impacts they have through their products, services and purchasing choices.

Governance gremlins

Governance shows up often as a material issue, but what does it really mean in this context? We would argue that its place is as an important mitigant to both financial and non-financial risks rather than being an impact or risk of its own.

Materiality for the sake of it

The outputs of a DMA should underpin strategy first and foremost. It has a secondary application in informing the balance of content in the ARA. If it does neither, it was probably a waste of time and money.

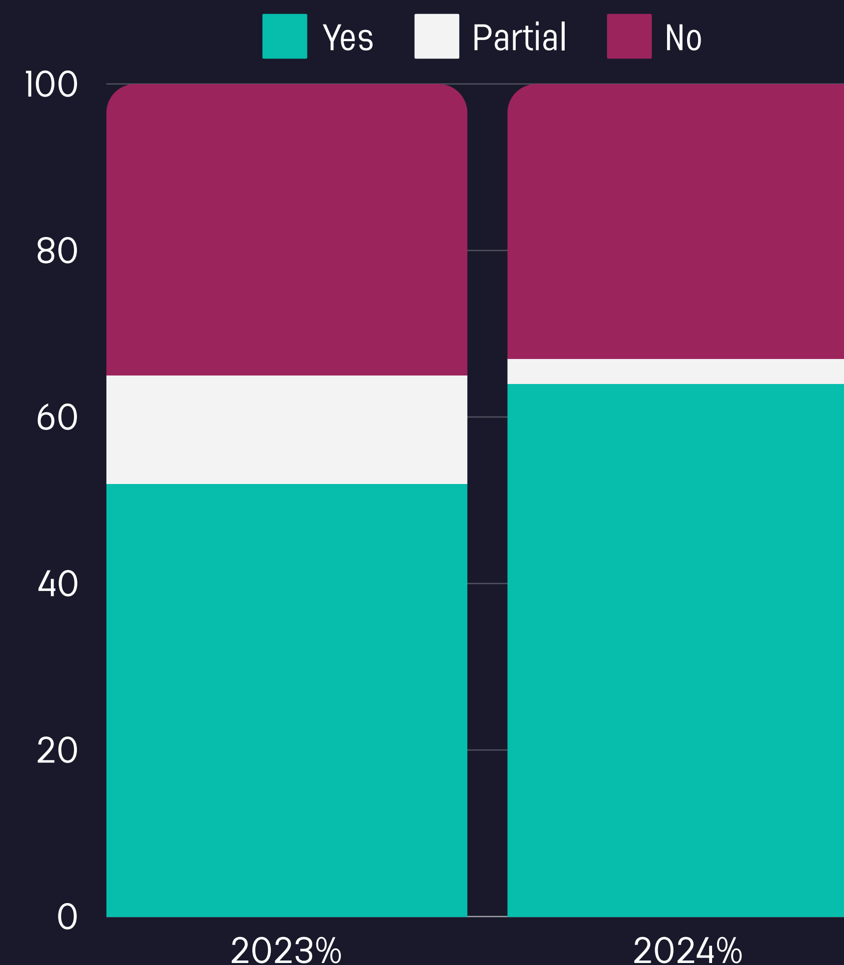
STRATEGY

A greater proportion of our (enlarged) cohort this year had an explicit **sustainability strategy** in place which they referenced in their reporting. Six of the companies that moved into the 'yes' bucket were in 'no' or 'partial' last year, demonstrating continued development and disclosure of their strategic thinking. The rest of the increase was a result of the expanded cohort this year.

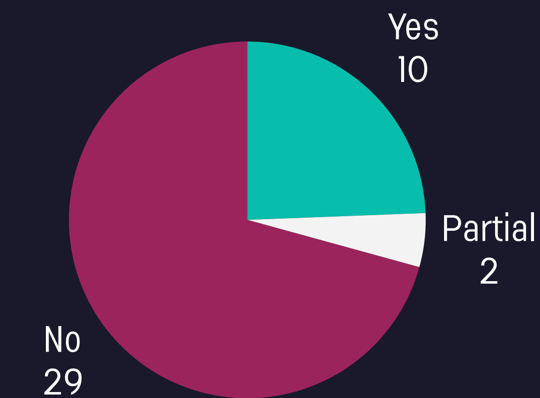
However, eight of our cohort use **"Environment", "Social" and "Governance"** as their three sustainability strategy priorities. In our view, this generic approach demonstrates a lack of linkage to the commercial strategy or understanding of the specific impacts, risks and opportunities unique to that business. This proportion has remained consistent from last year but we hope to see a reduction in future.

Of those with a clear or partial sustainability strategy, less than a quarter clearly and explitly **linked strategy to materiality**. This suggests future opportunities to strengthen strategic priorities based on the robust insights delivered by a proportionate Double Materiality approach.

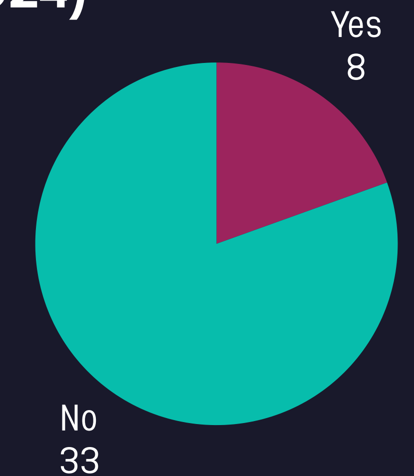
Sustainability Strategy



Materiality Linkage (2024)



Structured "E, S, G" (2024)

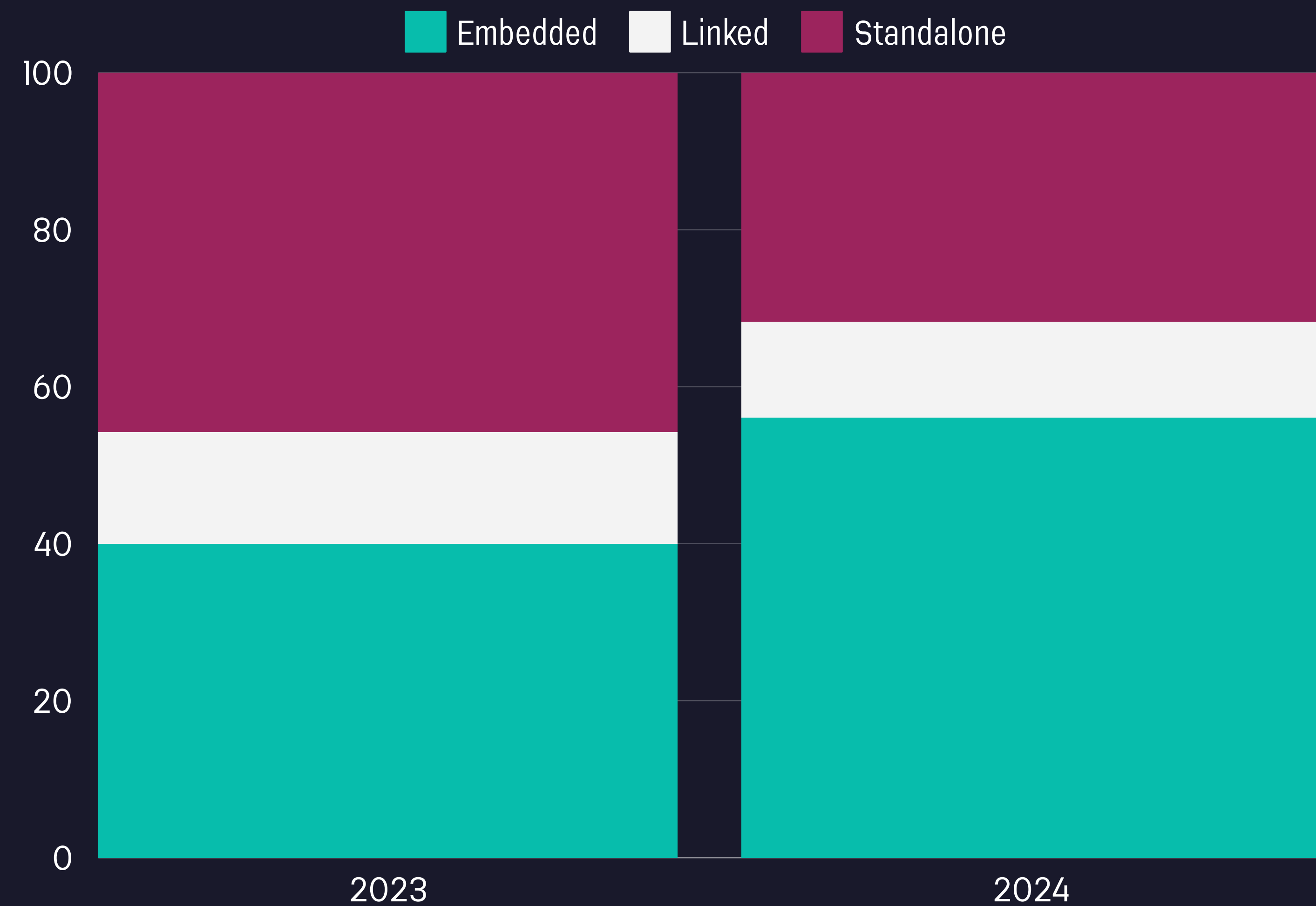


70%

of our 2024 cohort (41 FIs) have a sustainability strategy in place that they reference in their annual report.

There was an increase in the level of **integration between Corporate and Sustainability strategy** this year. While some of this is due to the evolving cohort, three companies notably moved from separate or linked sustainability strategies to a much more embedded approach. As one of Perigon's core founding beliefs is the need for and value of a single, integrated sustainable corporate strategy, we hope to see this trend continuing.

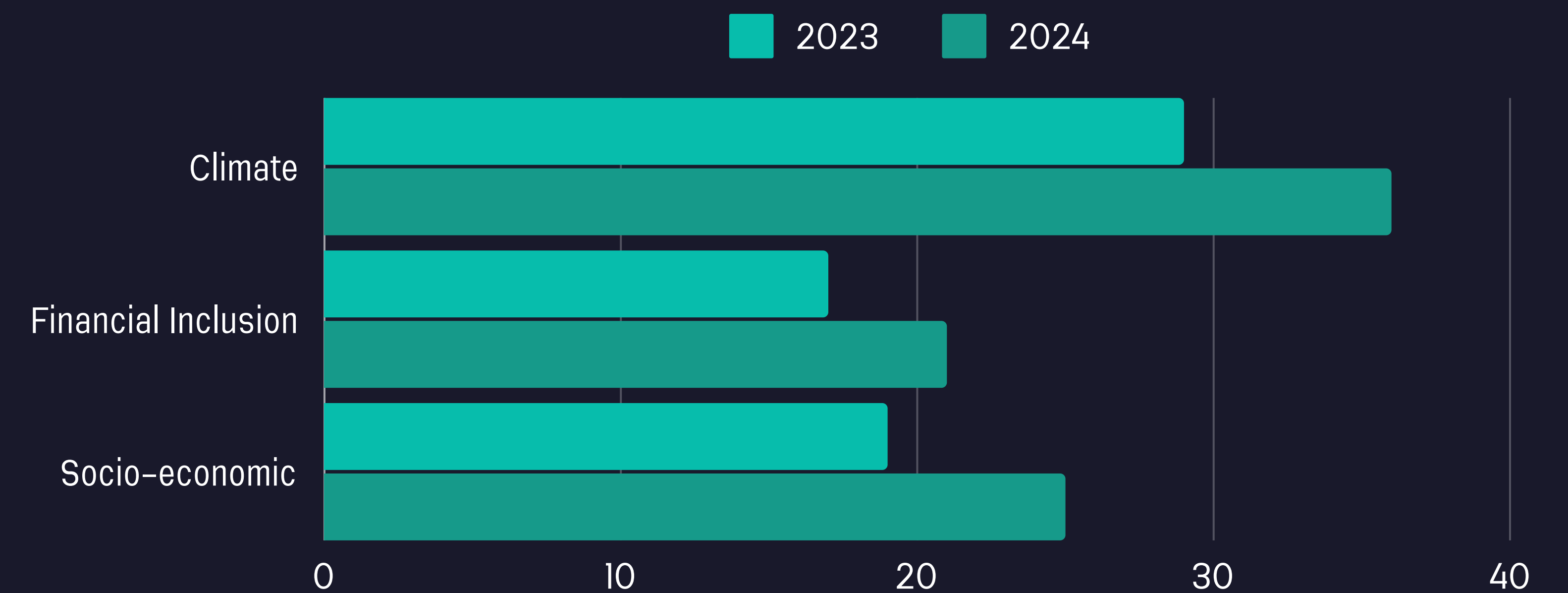
Integration of Corporate and Sustainability Strategy



Thematically, **climate** continues to be the most common element of FIs' sustainability strategy. The increase from last year in the number of companies highlighting climate in their reporting is evenly split between companies in last year's cohort more explicitly calling it out (in part driven by expanded climate-related financial disclosures requirements) and the expansion of our cohort this year.

We also see an increase this year in the number of FIs articulating the positive impact they have on **socio-economic** factors (through, e.g. small business lending). Again, this was evenly split between last year's cohort being more explicit about their role and the addition of new companies into this year's cohort.

Common Elements of Strategy / Purpose



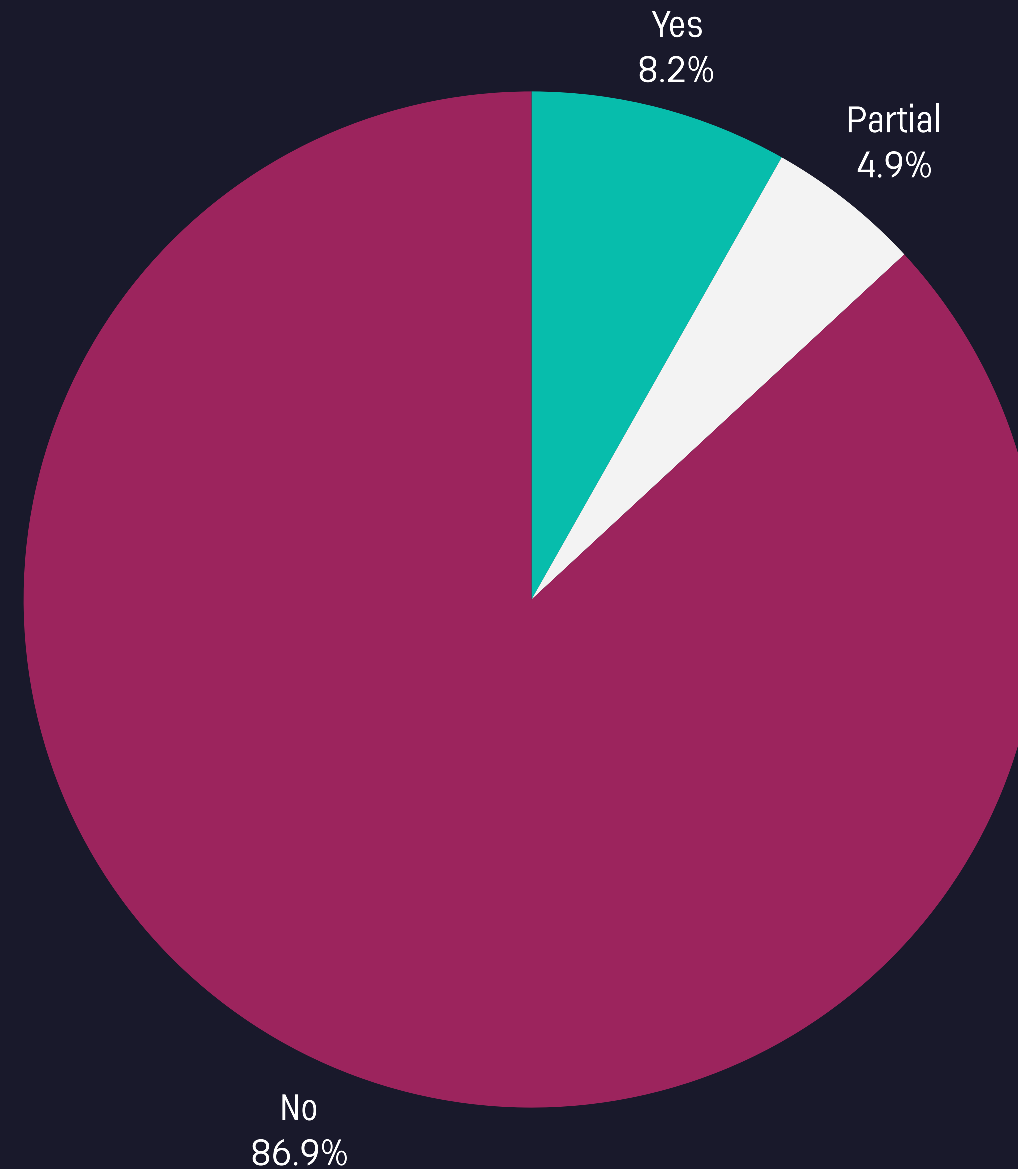
TRANSITION

In 2023, the Transition Plan Taskforce (TPT) finalised its 'gold standard' framework for companies to disclose their plans to transition to a low-carbon economy.

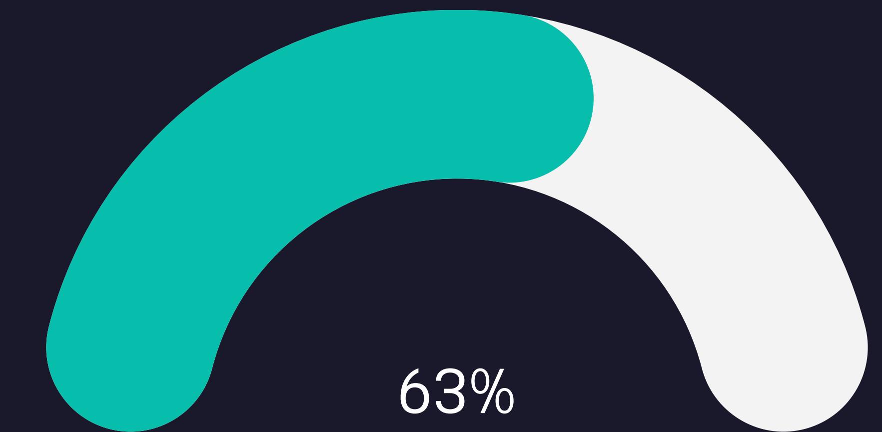
The Glasgow Financial Alliance for Net Zero (GFANZ) also shared its framework which, thankfully, is closely aligned to the TPT's.

With guidance now in place, a leading group of FIs have set out their first transition plans. We expect many more will follow within the next two years.

Transition Plan Published



Transition Plan in ARA



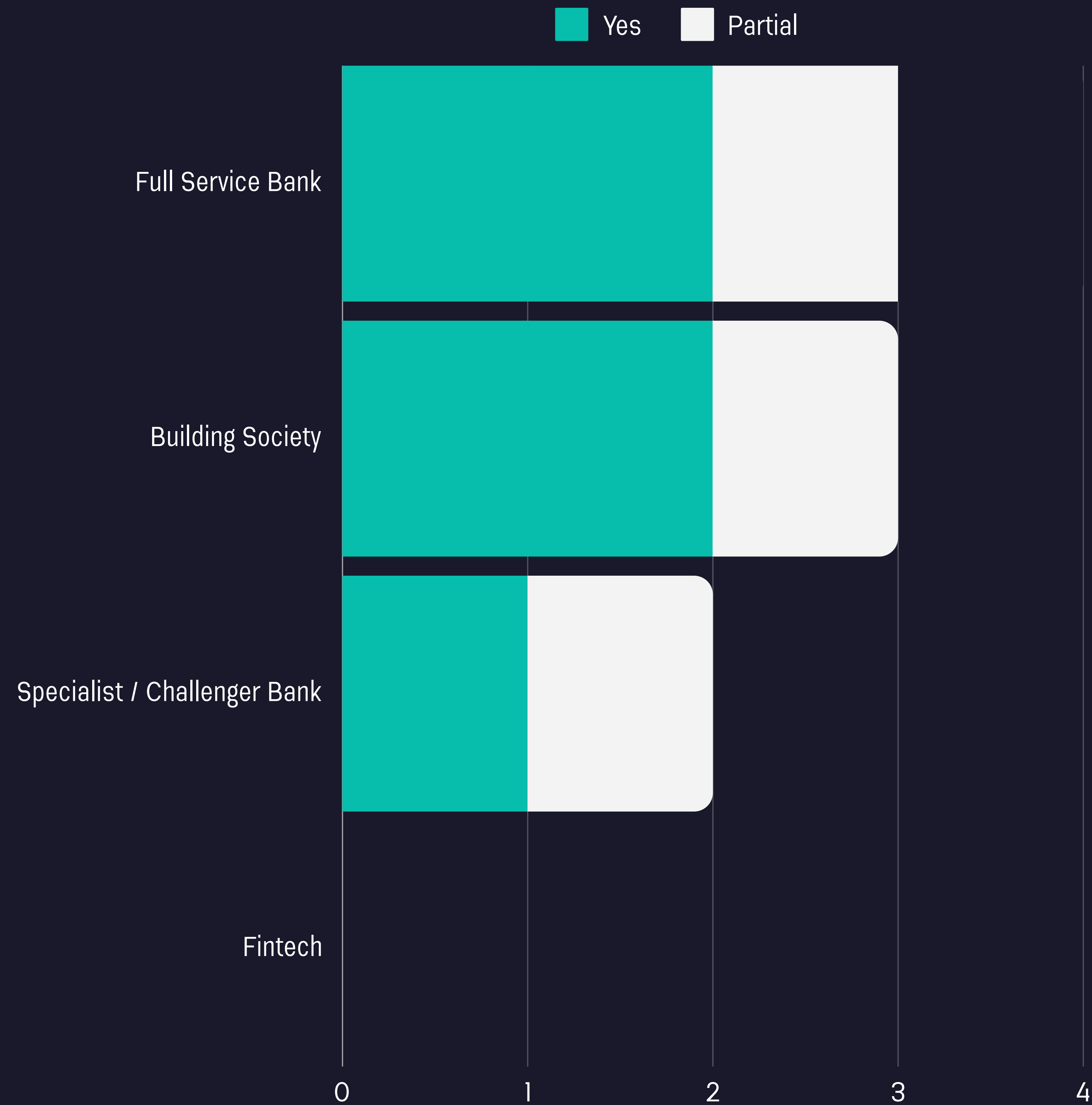
A narrow majority of those with a transition plan have chosen to publish it within their Annual Report and Accounts.

The jury is still out on what the common approach will be, with good arguments for having a separate (less frequently updated) transition plan that's cross-referred in annual disclosures.

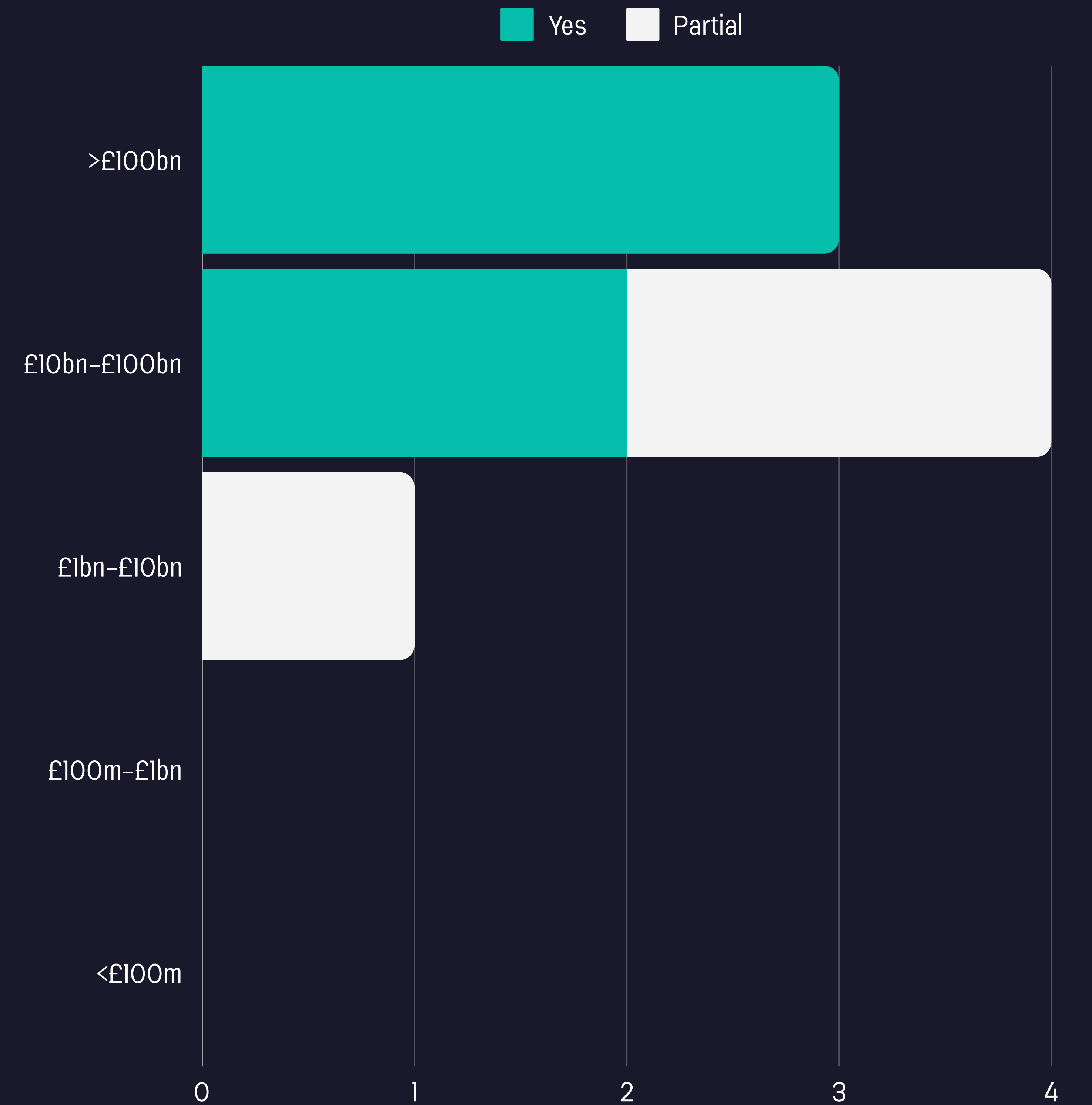
13%

of our 2024 cohort (8 FIs) have taken an early lead on publishing net zero transition plans

Transition Plans by Sub-sector



Transition Plans by Lending Bracket



Many FIs are likely busy developing their first transition plans as this report is published – 14 stated their intention to do so in the coming year in their most recent reporting.

Perhaps surprisingly, six of these had only just published their first Climate-Related Financial Disclosures (essentially the same as TCFD but legislated under the Companies Act rather than FCA Listing Rules). This rapid acceleration amongst the smaller institutions suggests they will quickly be on par with (if not more advanced than) their larger peers.

23% of our 2024 cohort (14 FIs) stated their intention to take action on transition plan development during this year

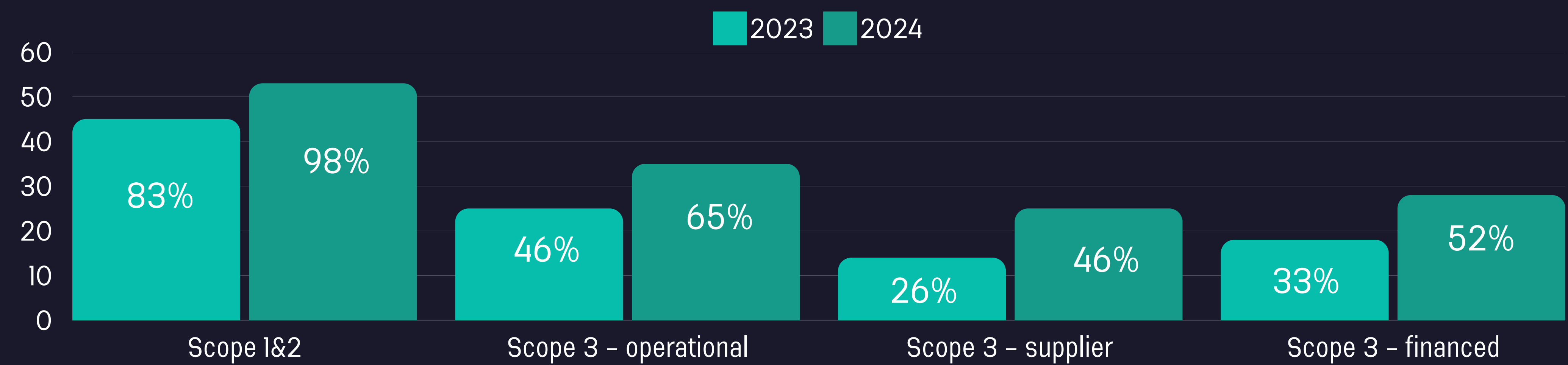
EMISSIONS

Further progress was made this year in **reporting emissions**. Scope 1 & 2 emissions are now reported (pretty much) across the board (even by those who sit beneath the Streamlined Emissions and Carbon Reporting (SECR) threshhold).

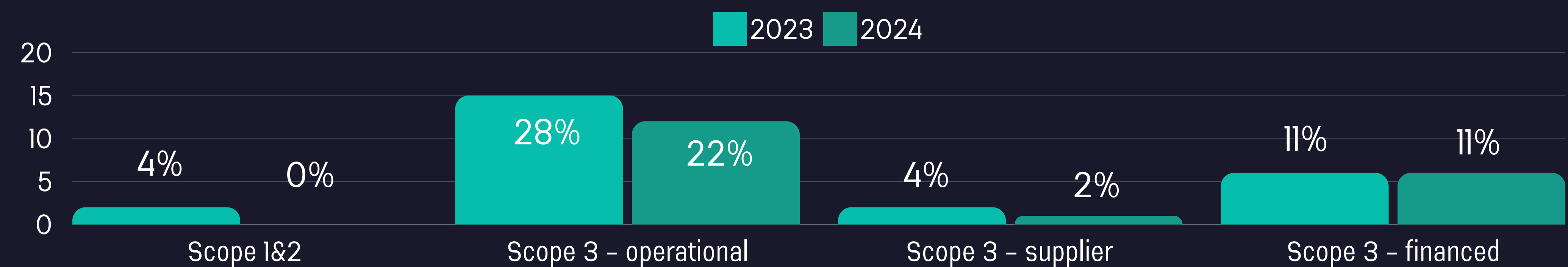
Scope 3 operational emissions (e.g. travel, waste, commuting) are at least partially reported by an overwhelming 87%. Supplier and financed emissions both pose more of a challenge regarding data availability and accuracy, but significant progress was made on both in the last year.

Very few report other downstream scope 3 emissions as these are, for the most part, immaterial in the sector.

Number of FIs Reporting Emissions (and % of that year's Cohort)



Number of FIs Reporting Partial (or early Estimate) Emissions (and % of that year's Cohort)

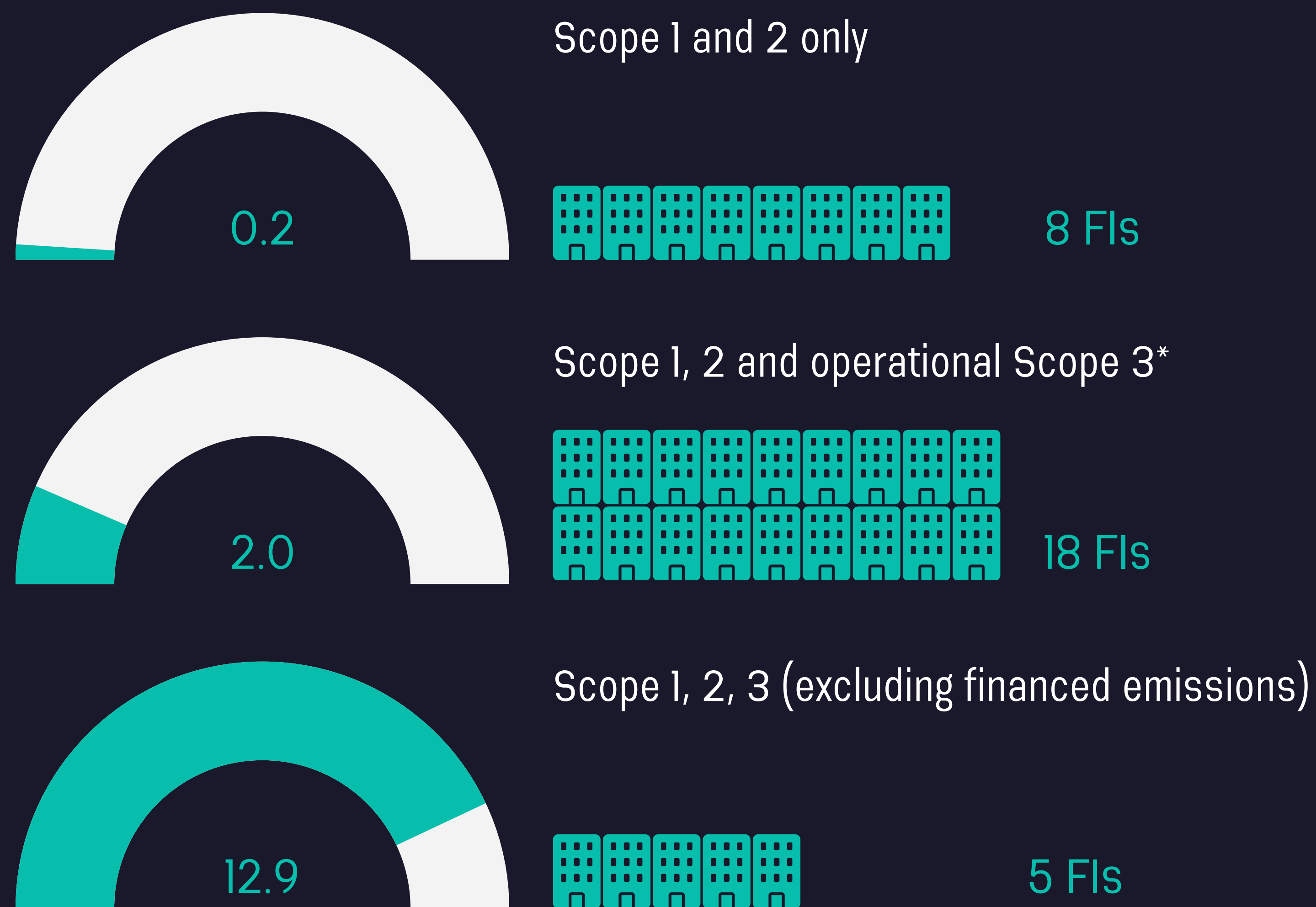


34%

of our 2024 cohort (21 FIs) made a good attempt at reporting their full inventory of relevant GHG emissions across scopes 1, 2 and 3 (up from 12 FIs last year)

We obsesrved a range of approaches to calculating GHG **emissions intensity** across our cohort. The most common denominator chosen was Full Time Equivalent employee (FTE) but a minority used revenue or sometimes square footage. Below we show the average emissions intensities per FTE, with most companies choosing to include Scope 1, 2 and operational Scope 3 in their numerator.

Average Emissions Intensity in tCO2e / FTE

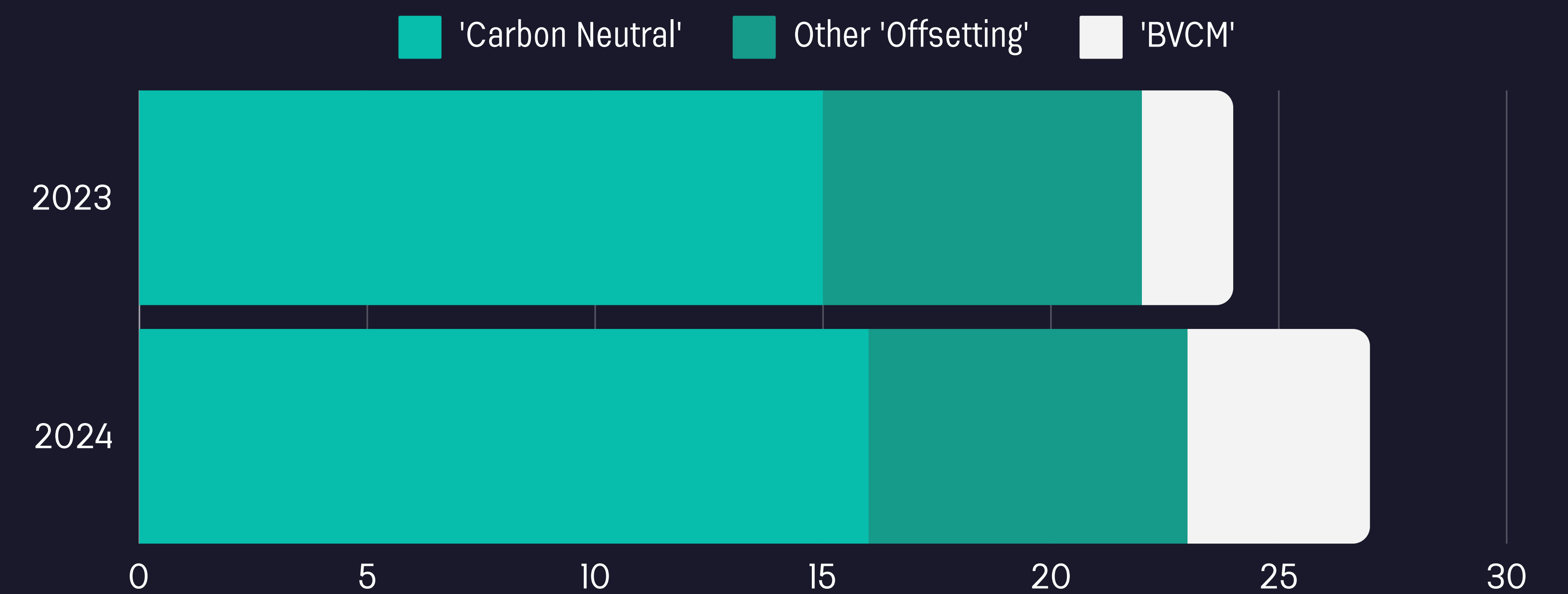


* 6 of the 18 FIs included business travel only for operational Scope 3 in this calculation

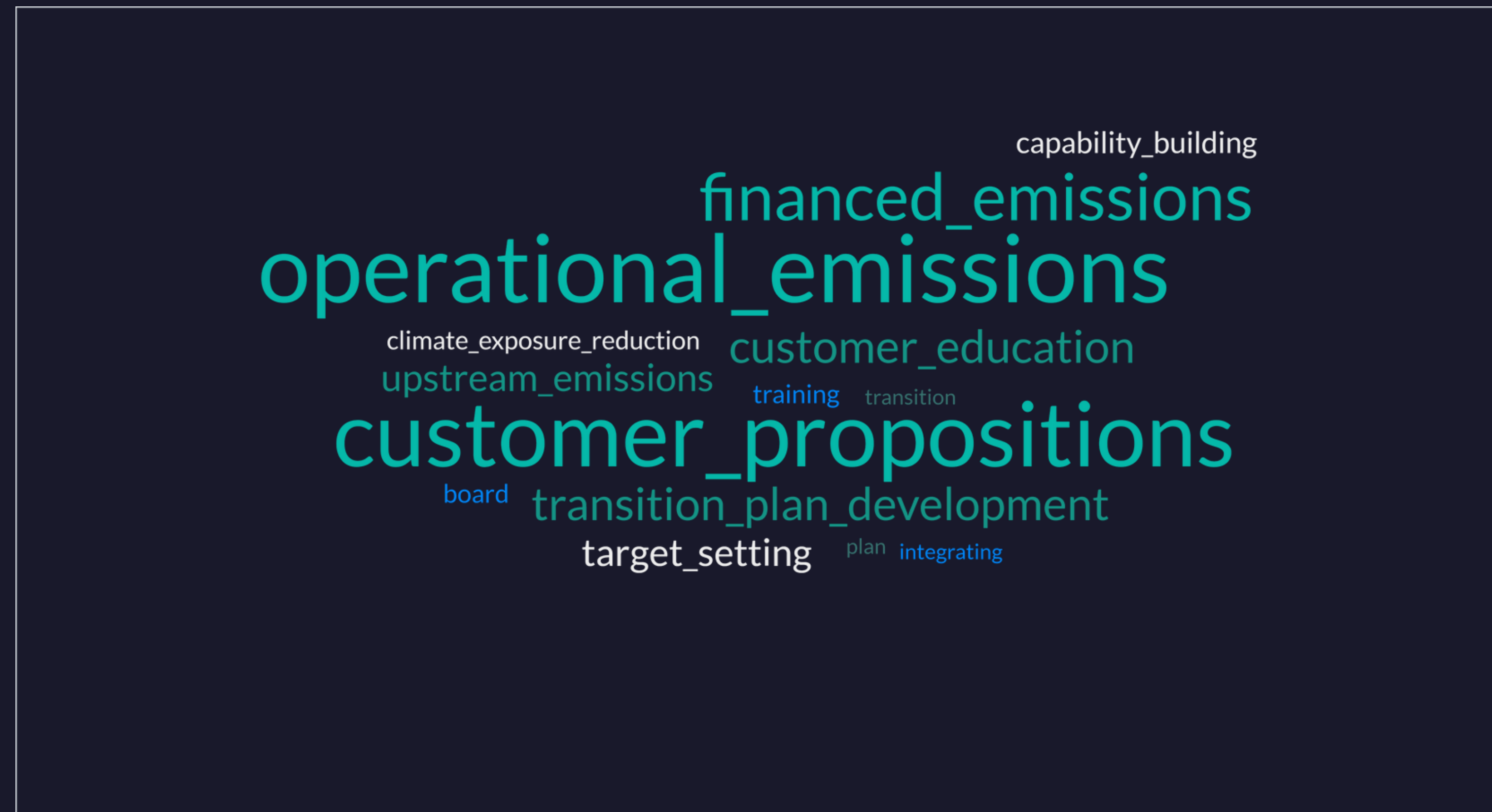
The approach to **carbon credits** has not matured significantly this year. Many still talk about **carbon offsetting**, which is not technically science-aligned terminology until the point when an organisation is left with a tail of hard-to-abate emissions and offsets this to reach net zero. A meaningful number go further to make statements about being operationally carbon neutral.

While there remains much uncertainty regarding this sort of terminology, particularly as the SBTi updates its guidance on carbon credits, there has been a noticeable 'stepping back' from these statements by the largest banks over recent years. They now talk in terms of '**Beyond Value Chain Mitigation**' regarding their purchasing of high-quality carbon credits.

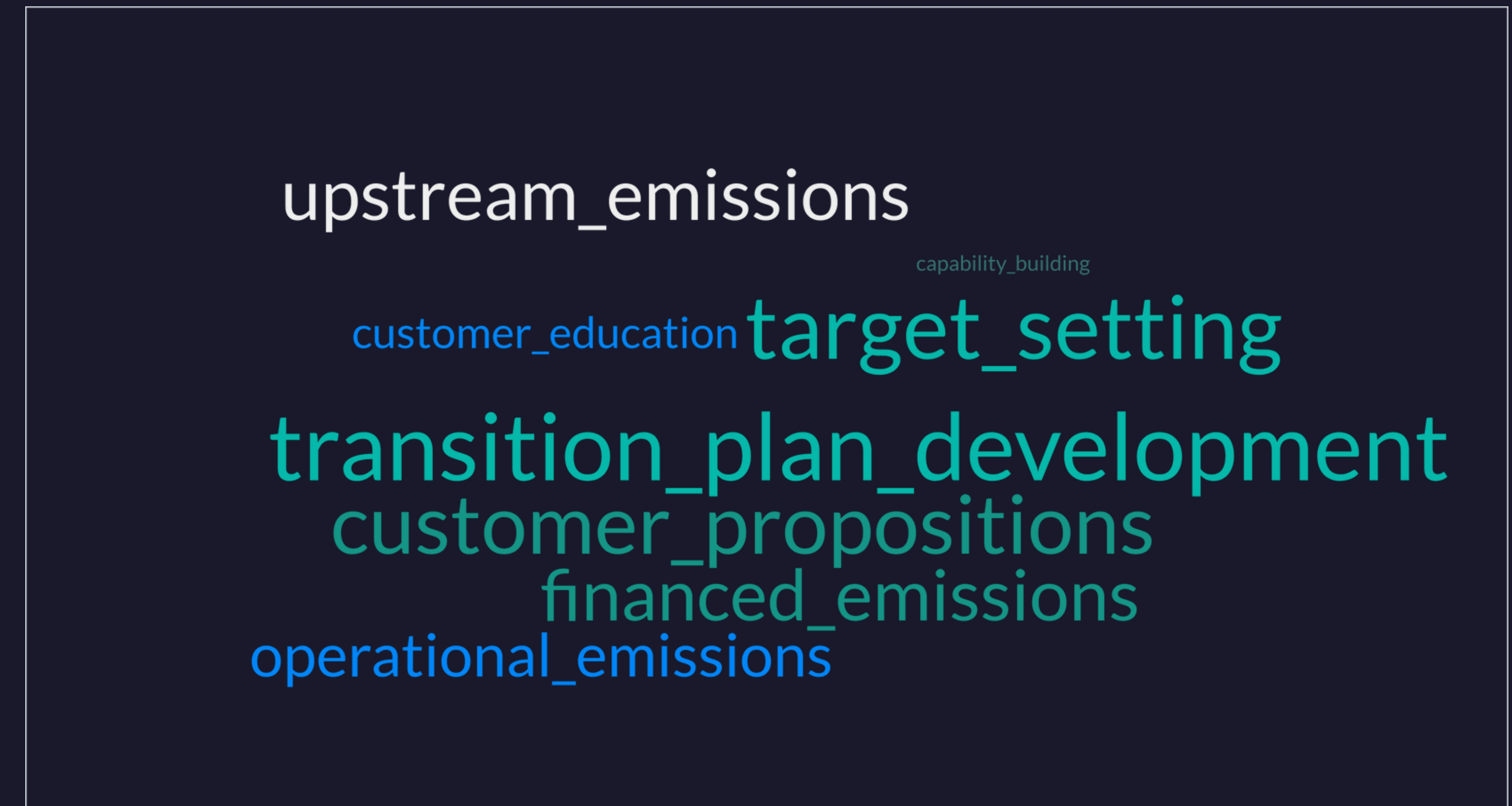
Approach to Carbon Credits (no. of FIs)



Key areas of climate focus in the reporting year



Key areas of intended climate focus in the coming year



A number of the larger FIs in our 2024 cohort spoke about actions taken to reduce operational emissions during this last reporting year, as a number continue to work towards interim 2030 targets of ‘operational net zero’ (or similar). Other key areas of focus in this past year were the development of ‘green’ customer propositions and progress in measuring financed emissions.

Looking ahead to the coming reporting year, a focus on transition plan development was common across our cohort, as was the intent to work on measuring upstream emissions and progressing climate target setting efforts. Many intend to continue developing greener customer propositions and/or educating customers, while some have more to do on measuring and refining financed emissions calculations.

CONCLUSION

We like to conclude our benchmarking with targeted recommendations as our readers head into the next reporting cycle. While we hope that many of the insights in this report are useful, there are four things we urge anyone involved in FI sustainability reporting to think about for the coming year.

1 More ≠ better

Have the confidence to be concise:

- We are seeing a trend of scaling back on sustainability disclosures, following a peak last year
- This is likely to continue as IFRS S1 and S2 will require a stricter lens on materiality and balance

2 Get real about materiality

Understanding is the critical foundation for effective strategy:

- The right approach to assessing Double Materiality can be immensely valuable for strategy setting as well as reporting
- It can and should be done proportionately
- The quality shown by FIs (and providers) is still mixed

3 Harness Transition Plan momentum

Transition Planning can be a powerful tool to galvanise action:

- Many FIs are focusing on developing their transition plans
- This is a sensible step regardless of where you are on your climate journey
- It provides a construct to start out smartly *and* to re-align and accelerate existing, sometimes disparate, efforts

4 Remember your core Purpose

The socio-economic impact FIs have is often overlooked:

- The story of positive impact from FIs' core business model is seldom told clearly or well
- Core business strategy and "ESG" are still too often unlinked

THANKS FOR READING

Your interest in our report makes it worth the considerable effort so thank you for reading.

We'd love to hear your thoughts / suggestions or to discuss how you're thinking about sustainability reporting in your organisation.

And don't forget to follow us on LinkedIn and subscribe to our YouTube channel for regular sustainability news and views.

Contact

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FIs included in our 2024 cohort, alphabetically by sub-sector (underlined = new for 2024)

Building Societies

- Bath Building Society
- Beverley Building Society
- Cambridge Building Society
- Coventry Building Society
- Darlington Building Society
- Dudley Building Society
- Earl Shilton Building Society
- Ecology Building Society
- Harpenden Building Society
- Leeds Building Society
- Melton Building Society
- Nationwide
- Newcastle Buildling Society
- Penrith Buliding Society
- Skipton Building Society
- Suffolk Building Society
- Yorkshire Building Society

Fintechs

- Allica Bank
- Atom Bank
- Chetwood Financial
- Funding Circle
- Monument
- Monzo
- OakNorth
- Revolut
- Starling
- Tide
- Zopa

Specialist / Challenger Banks

- Aldermore
- Arbuthnot Group
- Belmont Green Finance
- British Business Bank
- C. Hoare & Co.
- Cambridge and Counties Bank
- Castle Trust Bank
- Charity Bank
- Cynergy Bank
- Gatehouse Bank
- Hampden & Co.
- Hampshire Trust Bank
- One Savings Bank
- Paragon
- Recognise
- Redwood
- Secure Trust Bank
- Shawbrook
- Tandem Bank
- United Trust Bank
- Vanquis Bank
- Weatherbys

Full Service Banks

- Allied Irish Bank
- Bank of Ireland
- Barclays
- Co-op
- Lloyds
- Metro
- NatWest
- Parmanent TSB
- Santander UK
- TSB
- Virgin Money

FIs in our 2023 cohort that were removed for 2024 (due to M&A activity) were: Sainsbury's Bank, Tesco Bank. Please note, our cohorts are broad but not full representation of the UK FI landscape.
If you would like us to consider including your organisation in our 2025 cohort, please get in touch.