MITSUBISHI HC CAPITAL UK PLC

Methodology Report

Year Ended 31 March 2025

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Executive Summary

This document details the scope, methodology, and assurance for sustainability metrics included within the Mitsubishi HC Capital UK PLC (MHCUK) 2024 Annual Report, 2024 Environmental Statement, 2024 Carbon Reduction Plan, and 2023 ESG Report

Key Metrics

The methodologies included within this report correlate to the metrics below.

Commitment to Climate Action

1 Total scope 1, 2, and 3 (tCO2e) direct and indirect GHG emissions (excluding scope 3 category 15 financed emissions)

2 Total Scope 1, 2, and 3 (tCO2e) emissions (including scope 3 category 15 financed emissions)

3 Total gross scope 1 & 2 emissions in metric tonnes CO2e per Full Time Equivalent (FTE)

4 NEA green assets as a proportion of total NEA (£m)

Greenhouse Gas (GHG) Accounting

Scope of Reporting & Exclusions

MHCUK externally reports scope 1, 2, and 3 GHG emissions on an annual basis, aligned to the financial year (1 April – 31 March).

Emission boundaries are determined using an operational control consolidation approach as described in the Greenhouse Gas (GHG) Protocol Corporate Standard. Emissions are reported for the Company's UK operations only.

The reporting scope for scope 3b financed emissions covers all five MHCUK Business Units (BUs), with the only exclusion being the business activity of providing personal loans by Consumer Finance. This is due to legal limitations that prevent the Company from understanding what loans are used for and therefore high uncertainty in GHG emissions.

Methodology

The Company calculates it's GHG emissions using guidance from the UK Government Environmental Reporting Guidelines (March 2019), the Greenhouse Gas Protocol Corporate Standard, and the 2024 UK Government's Conversion Factors for Company Reporting for calculating GHG emissions. The Partnership for Carbon Accounting Financials (PCAF) methodology is used to measure and disclose financed GHG emissions associated with loans, investments and other financial products and services. Emissions are calculated and reported in metric tonnes per CO2 equivalent.

The GHG accounting report has been prepared internally since FY2021/22.

Scope 1

Scope 1 emissions are direct emissions from UK operations. According to the GHG Protocol, GHG emission factors are applied to energy consumption. Activity data is converted to GHG emissions using the below formula and relevant emission factors sourced from the UK Government GHG Conversion Factors for Company Reporting, which is updated on an annual basis.

Scope	Inclusions	Emission calculation methodology
1 Direct emissions include activities owned or controlled by the Company that release emissions into the atmosphere.	Mobile combustion: company cars (business travel)	A distance based approach is used. Business mileage travelled in company cars is split by fuel type and engine size and then multiplied by the UK Government GHG Conversion Factors.
	Mobile combustion: company cars (employee commuting)	A distance based method is used. The mileage travelled for commuting is estimated and split by fuel types based on the percentages of these fuel types in the company car fleet. Mileage is then multiplied by the relevant UK Government GHG Conversion Factors.
	Stationary combustion: natural gas for office heating	Emissions are calculated through a location based approach using data obtained from gas bills and meter readings for the Company's UK sites. kWh's are then multiplied by the UK Government GHG Conversion Factors for natural gas.

Scope 2

Scope 2 emissions are indirect emissions from energy that has been purchased and consumed by MHCUK. Scope 2 emissions are calculated on a location basis using the average energy generation emission factors for the UK sourced from the UK Government GHG Conversion Factors for Company Reporting.

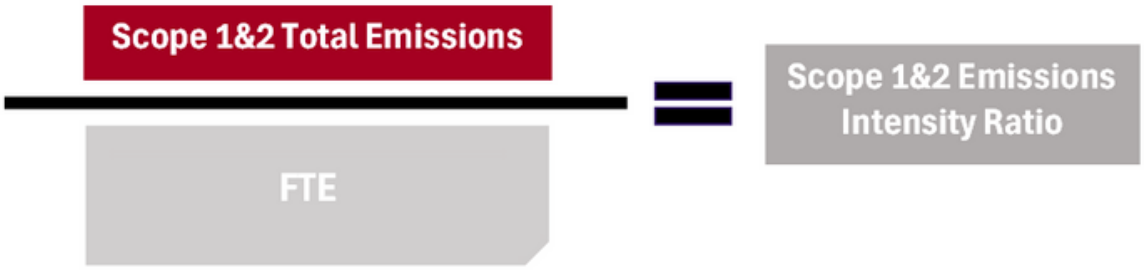
The method for calculating scope 2 emissions follows the same process as scope 1 under the GHG Protocol.

Scope	Inclusions	Emission calculation methodology
2 Energy - indirect emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling.	Purchased electricity	Emissions from purchased electricity are calculated using a location based approach. The kWh used across the Company's UK sites are obtained from half- hourly meter readings and electricity bills. Where data is missing, estimations have been used based on previous months electricity usage. The kWh's are then multiplied by the UK Government GHG Conversion Factor for Company Reporting for UK electricity generated.

Scope 1 & 2 Intensity Ratios

Scope 1 & 2 intensity ratios are required to be calculated on a quarterly basis as part of the climate risk appetite. The emissions intensity will be used to inform the Enterprise Risk Committee (ERC) whether operational emissions remain within the agreed-upon risk threshold. Material risks and annual scope 1 & 2 intensity ratios are reported externally in the Annual Report.

The methodology for calculating the emissions component of the intensity ratio follows the same approach outlined in the Scope 1 & 2 sections above, adhering to the guidance as stipulated in the GHG Protocol Corporate Standard. The relevant datasets for mobile combustion: company cars (business travel), mobile combustion: company cars (employee commuting), stationary combustion: natural gas for office heating, and purchased electricity, are collated and analysed quarterly to determine the liable emissions. This data includes expense reports, fleet reports, FTE headcount, supplier energy invoices, and half-hourly meter reading data.



The selected intensity measurement ratio is ‘total gross emissions in metric tonnes CO2e per Full Time Equivalent (FTE)’, which is the recommended ratio for the sector. As a result, the chosen metric is expressed as ‘tCO2e produced per FTE employee’.

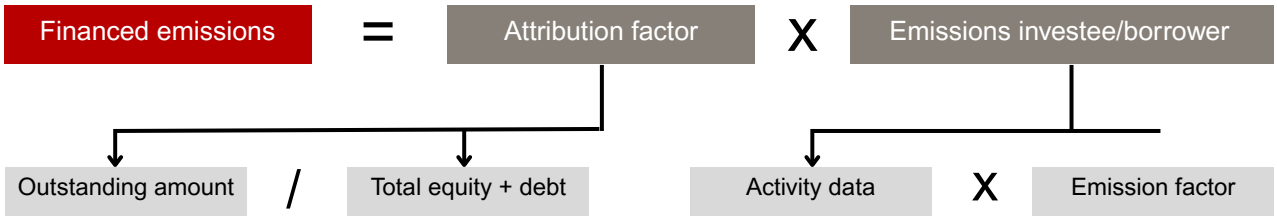
Scope 3

For accurate GHG accounting, Scope 3 has been broken down into Scope 3a – Indirect Upstream Emissions and Scope 3b – Indirect Downstream/Financed Emissions.

Scope	Category	Inclusions	Emission calculation methodology
3a Indirect upstream emissions	1 - purchased goods and services	• Water supply acquisition • Consumption of physical products and services	Emissions are calculated using a spend based method. Financial amounts from our purchase orders are multiplied by monetary ratios from Ademe or Carnegie Mellon with inflation and currency taken into account to give tCO2e. Water supply data in m3 is multiplied by the UK government GHG conversion factor for water supply.

Scope	Category	Inclusions	Emission calculation methodology
3a Indirect upstream emissions	2- capital goods	• Office goods • Company car expenditure	Emissions are calculated using a spend based method. Financial amounts from our purchase orders are multiplied by monetary ratios from Ademe or Carnegie Mellon with inflation and currency taken into account to give tCO2e.
	3- fuel and energy related	• WTT natural gas for office heating • Transmission and distribution losses of purchased electricity • WTT fuel for company cars (business travel) • WTT fuel for company cars (employee commuting)	Well to Tank (WTT) emissions are calculated for gas consumption, electricity consumption, mileage for business travel in company cars, and mileage for employee commuting. For gas and electricity, the kWh consumed are multiplied by the relevant UK government GHG conversion factors. For business travel and employee commuting in company cars, the same formula is used for mileage.
	5- waste generated in operations	• Solid waste • Water waste	Waste related emissions are calculated for waste water, mixed commercial, mixed packaging, and paper waste. Consumption measured in metric tonnes is multiplied by the waste-specific emission factors from the UK Government GHG conversion factors. Where data is missing, this is estimated using a proxy.
	6- business travel	• Personal car • Train • Airplane	The primary method used is distance based. Distance is obtained for business travel in personal cars, trains, and planes. Distance is multiplied by the relevant UK Government GHG Conversion Factor. Where business travel has been logged as expense claims, distance is estimated from the financial amounts using average £ for mile for each travel type. Estimated distance is multiplied by the relevant UK Government GHG Conversion Factor.
	7- employee commuting	• Grey fleet • Public transportation	A distance based method is used. The mileage for employee commuting is estimated for car and public transport. Distance is multiplied by the relevant UK Government GHG Conversion Factor.

The calculation of financed emissions reported under scope 3b is in line with the PCAF Standard and based on the following formula:



Scope	Category	Inclusions	Emission calculation methodology
3b Indirect downstream/ financed emissions	13- downstream leased assets	• Vehicle leasing • Asset leasing	For the Business Finance and European Vendor Finance divisions, a spend-based method is used to calculate GHG emissions. **The formula applied for each financed asset is: outstanding amount financed * attribution factor * emission factor * inflation and currency.** Emission factors are derived from Ademe or Carnegie Mellon, with an attribution factor of 85% for motor vehicles and 16% for other products based on research. Inflation and currency adjustments account for the differences in monetary ratios, with Carnegie Mellon's ratios in dollars and Ademe's in euros, as well as inflation changes since the ratios were established. For the Vehicle Solutions (VS) division, a distance-based method is used to calculate emissions. The contractual annual distance for each financed asset is obtained, broken down by vehicle and fuel type. **The emissions for each vehicle type are calculated using the formula: contractual annual distance * 78% * emission factor.** The emission factors used are the UK government's GHG conversion factors. The contractual mileage is multiplied by 78% to account for average vehicle usage.

Scope	Category	Inclusions	Emission calculation methodology
3b Indirect downstream /financed emissions	15-investments	• Business loans • Consumer retail loans • Project finance • Motor vehicle loans	For the Business Finance, Consumer Finance, Business Cashflow, and European Vendor Finance divisions, a spend-based method is used to calculate GHG emissions. **The formula for calculating emissions for each financed asset is: outstanding amount financed (or paid out business value for Consumer Finance and current account for Business Cashflow) * attribution factor * emission factor * inflation and currency.** The emission factors are monetary ratios derived from Ademe or Carnegie Mellon. An attribution factor of 85% is applied for motor vehicles and 16% for other products, based on research. Inflation and currency adjustments are made to account for Carnegie Mellon ratios being in dollars and Ademe ratios in euros, as well as inflation changes since the monetary ratios were established. For the Vehicle Solutions (VS) division, a distance-based method is used. **Emissions for each vehicle type are calculated using the formula: contractual annual distance * 78% * attribution factor * emission factor.** The emission factors used are the UK government GHG conversion factors. The contractual mileage is multiplied by 78% to account for average usage. The attribution factor is calculated as the percentage of outstanding amount over the total financed amount.

Data Quality Improvements

MHCUK is actively reviewing data quality and GHG emission calculation. Focus has been employee commuting calculations based on the employee commuting survey carried out in 2021. More precise data collection for this category is ongoing.

Work with MHCUK's travel agency is ongoing to improve the data quality and clarity of the methodology used, which had been changed from the prior year's reporting method, in order to be able to analyse the changes and their impact on MHCUK emissions.

To calculate Scope 3b financed emissions, alternative emission factor sources were reviewed. As a result of the review, MHCUK started moving to the PCAF database and will continue to complete the implementation of the PCAF emission factors in next financial year.

Assurance

The Group Sustainability Team currently reviews and calculates Scope 1, 2, and 3b (category 15) emissions on a quarterly basis, in accordance with internal reporting requirements, such as the Environmental Sustainability Management Information (MI) Report for the ESG Environmental Committee and the Climate Risk Appetite Measure for the Enterprise Risk Committee. Scope 3a emissions are calculated annually.

The annual GHG emissions reported in the ESG Report and Streamlined Energy and Carbon Report (SECR) published in the Annual Report are internally reviewed by the Group Sustainability Team data stewards and data owner.

Streamlined Energy and Carbon Reporting (SECR)

Scope

MHCUK prepares an annual SECR report in line with the Companies (Director's Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the UK Government's Policy to disclose greenhouse gas (GHG) emissions. The reporting year runs from 1 April to 31 March.

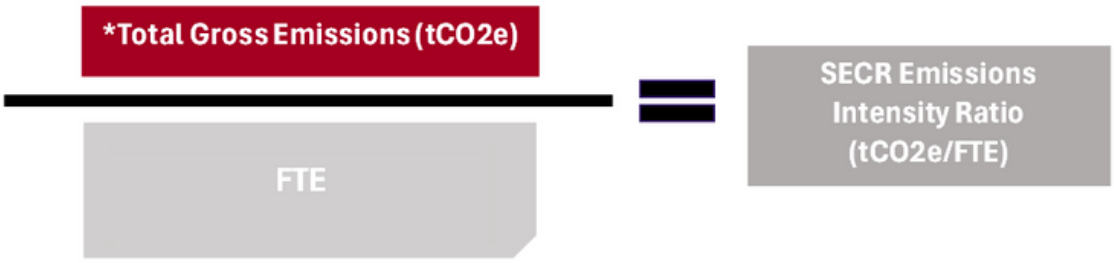
The scope of this report is emissions from UK operations using an operational control approach as described in the Greenhouse Gas Protocol Corporate Standard.

Scope	Definition	Inclusions
1	Direct emissions include activities owned or controlled by the Group that release emissions into the atmosphere.	Emissions from combustion of gas Emissions from combustion of fuel for transport purposes
2	Energy indirect emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling.	Emissions from purchased electricity
3	Other indirect emissions that are a consequence of the Group's actions, which occur at sources not owned or controlled by the Group and which are not classed as Scope 2 emissions.	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel

Methodology

The Company has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the 2024 UK Government's Conversion Factors for Company Reporting document for calculating GHG emissions. The emission calculations for the categories stated above follow the same methodology as the GHG accounting. Since FY2021/22 the report has been prepared internally.

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO2e per full time equivalent (FTE), the recommended ratio for the sector.



*Please refer to the SECR scope of reporting table for the emission categories included in the calculation.

SECR Energy Efficiency and Analytical Review

Emission factors used in SECR calculations are updated annually, informed by changes to the UK Government Conversion Factors for Company Reporting. As a result, their variation may impact total emissions.

The following causes for the variation in emission factors are cited by the UK Government.

Scope 1

Gas - emission factors are updated to be in line with the latest UK's Greenhouse Gas Inventory.

Fuel for transport purposes - emission factors are reviewed on an annual basis to reflect the changes in the spectrum of car types and ages on the road in the UK. This is informed by the Department for Transport who analyses Driver and Vehicle Licensing Agency (DVLA) records and automatic number plate recognition (ANPR) data.

Scope 2

Electricity - the emission factor for UK electricity fluctuates from year to year as the fuel mix consumed in UK power stations varies, as well as the proportion of imported electricity.

Scope 3

Business travel - emission factors are reviewed on an annual basis to reflect the changes in the spectrum of car types and ages on the road in the UK. This is informed by the Department for Transport who analyses Driver and Vehicle Licensing Agency (DVLA) records and automatic number plate recognition (ANPR) data.

Sources:

- The UK Government Conversion Factors for Company Reporting 2024 - full set
- The 2024 Government greenhouse gas conversion factors for company reporting: Methodology paper

Assurance

The annual GHG emissions reported in the SECR report are internally reviewed by the Group Sustainability Team data stewards and data owner. The SECR report is finally audited by Deloitte, MHCUK's third party auditor, as part of the annual report review process.

Green Assets

Scope

The Company's focus on funding green assets is growing and is a key part of the Company's Sustainability Strategy.

The monetary amount and percentage of Net Earning Assets (NEA) which are considered 'green' is tracked and reported to measure our progress in transitioning to more sustainable financing. The current scope of green asset reporting includes financed assets and projects from Vehicle Solutions, Business Finance, and European Vendor Finance, as well as the Gridserve equity valuation. The intention is to extend this coverage to all five Business Units after further internal research is completed.

Methodology

Green Asset Research

The Company is actively working to ensure its definition of green assets are transparent and in line with accepted methodologies and taxonomies.

In order to determine the green nature of financed assets, asset categories have been split out from the divisions book. Once granular assets have been identified, each asset is assessed against the EU Taxonomy. The EU Taxonomy is a reputable classification system for sustainable financing used across the EU which is backed by science-based criteria. This has been used as the first point of reference to ensure alignment with EU reporting practices and to maintain transparency.

Further to this, assets are reviewed against industry guidance, standards, and the Green Financing Frameworks of other financial services to ensure alignment with industry best practice.

The common sources used in the development of the framework include but are not limited to:

- EU Taxonomy
- EU Taxonomy Report: Technical Annex
- UK Government Green Financing Framework
- Climate Bonds Standard - a criteria list to ensure investments in climate change mitigation are in line with a 1.5°C pathway. The standard is produced by the climate bond initiative and developed using climate science such as research by the IPCC and IEA.
- Common Principles for Climate Mitigation Finance Tracking – a set of guidelines and eligible activities for finance contributing to climate change mitigation. These are developed by the Joint Climate Finance Tracking Group of multilateral development banks (MDBs) and a group of representatives of the International Development Finance Club (IDFC) member banks.

Following the review of the asset against wider guidance a recommendation is reached. For an asset to be considered as 'green', the sustainable nature of the asset must be widely accepted. Should it not be clear if an asset can be considered 'green' such as where additional thresholds must be met or there is contention between industry guidance, the evidence is presented to the ESG Environmental Committee for their decision.

This will provide a basis for the creation of an external facing framework to inform stakeholders of the assets considered 'green' and the rationale behind this. This will allow the transparent tracking of the Company's performance against the sustainable finance targets.

Green Asset Reporting

The monetary amount and percentage of NEA considered 'green' as a proportion of the total investment portfolio are calculated and reported internally on a quarterly basis to the ESG Environmental Committee within the Environmental Sustainability MI Report. The metrics are also reported externally on an annual basis in our ESG Report.

Assets considered 'green' and reported on an annual basis are informed by the Green Asset Research.

The following assets have been considered 'green' and are included in Green Asset Reporting:

- Electric Vehicles
- Hybrid ULEV Vehicles
- Hydrogen Vehicles
- Bicycle Vouchers
- Green Energy, including Solar and Wind renewables.
- Battery Storage Systems
- LED Lighting

Methodology Updates

The following updates have been applied to the Green Asset Reporting methodology for the following years.

Financial year ending 31 March 2025 onwards:

- Previously all assets which fell under the renewables category in our portfolio were considered 'green'. This category has since been assessed on a more granular level in line with the outcomes of the Green Asset Research. As a result, biomass, generators, and heating assets which fell under the renewables category are no longer considered to be included within Green Asset Reporting totals.

Financial year ending 31 March 2024 onwards:

- Based on Green Asset Research recommendations, the asset categories of recycling and electric construction equipment are no longer considered 'green' and are therefore excluded.
- The Business Finance division's project finance loan agreements have been included in the net book value of Green Asset Reporting.

Due to the above methodology changes, the Greet Asset Reporting figure for financial year ending 31 March 2024 has been amended.

Assurance

Green Asset Research

Assets considered 'green' are reviewed by the Group Sustainability Team using the EU Taxonomy and other credible sources as stated in the Methodology section. The 'Senior Sustainability Disclosure Manager – Data and Climate Accounting' reviews each researched asset as the technical SME. Proposed green assets are presented to the ESG Environmental Committee for approval by the committee members and a final sign off from the CEO.

Green Asset Reporting

Internal reviews of the Green Asset Reporting are carried out through a bottom-up process, starting with the Group Sustainability team's data stewards and concluding with the General Manager of the CEO Office & Sustainability.

Each iteration of the Green Asset Report, as part of the Environmental Sustainability MI Report, is reviewed by the ESG Environmental Committee on a quarterly basis, including feedback from the CEO.

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