Task Force on Climate-Related Financial Disclosures

Listing Rule 9.8.6R (8) requires that the Group provides climate-related financial disclosures consistent with the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD)

The Board confirms that it has disclosed sufficient information to comply with TCFD and Companies Act 2006 requirements as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The Group will continue to enhance these disclosures over time in line with regulatory expectations and emerging best practice.

The Group remains committed to playing a leading role in addressing climate change and achieving our ambition of net zero emissions across our broader business activities by 2050.

Through the Group's membership and involvement in several initiatives including the Net Zero Banking Alliance (NZBA), we continued to support the wider efforts of the financial services industry to minimise the impact it has on climate change.

Throughout the year, the Group focused on planning how we can reduce the environmental impact of our own operational footprint and how we can support the decarbonisation of the UK housing stock we finance, whilst developing our first Climate Transition Plan.

The Board is conscious that regulatory expectations and industry best practices continue to evolve and further work is required to enhance our climate risk operating model.

The disclosures below were drafted to be consistent with TCFD recommendations and provide transparent reporting to assist our stakeholders in understanding the impact of climate change on the Group. The current assessment indicates a low climate risk impact to the business, however we remain cognisant that climate risks may evolve over time.

In the table below, we describe the progress made against each TCFD pillar during 2023 and the actions planned for 2024.

Task Force on Climate-Related Financial Disclosures continued

Governance

Achievements	Opportunities for 2024	Further details
1) Board oversight of climate-related risks and opportunities:		
• All Committee and Board papers continued to provide an environmental impact assessment to allow the Directors to consider any climate-related risk impacts or implications to the Group's stated climate ambitions. Climate risk and Environmental, Social and Governance (ESG) matters are key considerations to the Group's strategy for which the Board assumes responsibility. • In addition to its direct oversight, the Board delegates responsibility for the Group's climate-related risk appetite, risk monitoring, provisioning and capital and liquidity management to the Group Risk Committee. The setting of climate risk appetite limits is a key tool utilised to ensure that the Group's risk profile continues to be managed to an acceptable level, whilst the Group's climate risk Internal Capital Adequacy Assessment Process (ICAAP) ensures that the Group continues to hold sufficient capital to address climate specific risks to which it may be exposed. • During 2023, the Group Audit Committee continued to monitor the Group's compliance with TCFD requirements and the commitments made as a member of the NZBA. • During 2023 Kal Atwal (Non-Executive Director) assumed responsibility for overseeing ESG matters on behalf of the Board, taking over the role previously held by Sarah Hedger (Non-Executive Director). • The Board considers and approves emission reduction goals and targets in line with the Group's net zero by 2050 commitment. • The Group Remuneration and People Committee integrated greenhouse gas (GHG) emission reduction targets into the Balanced Business Scorecard (BBS) with performance against these targets presented to the Board on a regular basis (see metrics and targets for further details). • During 2023 the Group Executive Committee met on monthly basis, receiving emissions performance information and ad hoc papers from the ESG Technical Committee on a periodic basis as required.	• Deliver further enhancements to the Group's climate-related internal expertise to ensure effective oversight of climate-related risks. • Further develop the Group's climate risk strategy and monitor its adherence by setting and monitoring climate-related risk performance targets. • Deliver further enhancements to the Group's climate financial risk appetite framework, which will result in enhanced monitoring of the Group's climate risk profile. • Provide training as part of the Group's Climate Transition Plan.	See Corporate Governance Report pages 105-135 and the Sustainability Report page 88.
2) Management's role in assessing and managing climate-related risks and opportunities:		
• The ESG Technical Committee is a Management Committee who report into the Group Executive Committee. During 2023 the Committee met on at least a bi-monthly basis, ensuring effective indentification and management of climate-related risks and goals. The Committee's output is summarised and shared annually with the Board for consideration. • During 2023 the Group established a Climate Transition Working Group, to act as the forum that oversees the implementation of the Group's Climate Transition Plan and production of required disclosures, whilst providing regular updates to the ESG Technical Committee on progress against planned objectives. • Climate risk continues to be recognised as an enterprise risk and forms part of the Group's overarching Enterprise Risk Management Framework (ERMF), with a dedicated Group Climate Risk Management Framework which articulates how the Group identifies, monitors, and manages climate risks. This framework was enhanced and further embedded during 2023. • The Chief Sustainability Officer is responsible for ensuring the Group's strategy is aligned and consistent with the various climate-related initiatives across the Group as well as ensuring that the Group is well positioned to meet its ESG reporting objectives. • Annual GHG intensity reduction targets (Scope 1 and Scope 2) continue to be included in the personal objectives of the CEO and CFO as well as the BBS. Integrating targets into remuneration is expected to reduce the Group's emissions over time aligned to the Group's net zero commitment. • A review of existing risk management frameworks across principal risk areas was conducted to ensure that climate risk is appropriately embedded and monitored.	• Further embed climate risk considerations within the Group's other sub-risk management frameworks, where required. • Progress towards reducing the Group's direct emissions targets. • Continue to monitor and manage performance against established emission reduction targets for financed (mortgages) and operational emissions.	None.

Task Force on Climate-Related Financial Disclosures continued

Strategy

Achievements	Opportunities for 2024	Further details
3) Climate-related risks and opportunities identified over the short, medium, and long-term:		
The Group determined the following as relevant and/or material risks to be reviewed annually: Time periods considered are defined as short term 0-5 years, medium term 5-10 years and long term greater than 10 years. The short-term time horizon aligns to the Group's planning and ICAAP stress testing assessment periods. The long-term time horizon has been utilised within scenario analysis to assess climate risks which may occur over a longer time frame. The medium-term horizon therefore, relates to risks and opportunities which are inside our long-term assessment horizon, but sit outside of our short-term assessment period. The Group's lending is to individuals and small and medium enterprises in the UK, where the specific climate risks and opportunities are assessed. The Group's operational sites in both the UK and India (OSBI) are exposed to similar climate risks. Currently, the Group does not deem it necessary to describe risks and opportunities by geography. The Group provides lending in the UK primarily against residential and commercial properties, with low exposure to non-property collateral backed funding lines or asset finance lending which is typically secured against hard assets, and therefore does not have significant credit exposure to carbon related assets. **Risks** **Lending** **Physical risk (long term)** ***Changes in precipitation patterns and extreme variability in weather patterns, rising mean temperatures and rising sea levels*** The Group primarily lends on residential assets, either for owner occupation or for investment by professional landlords. The Group undertook the annual scenario analysis of its portfolio using best-case and worse-case scenarios to determine the level of exposure to climate-related risks. The key physical risks used for scenario analysis are flooding, subsidence and coastal erosion in the long-term (> 10 years), which considers the behavioural and contractual life of the Group's primary lending types. **Transition risk (short term)** ***Policy and legal – mandates on and regulation of existing products and services*** Energy Performance Certificate (EPC) rating requirements are considered a key transitional risk in the short term (0-5 years). The Group's current exposure to transition risk as a proportion of the total lending is relatively small. ***Uncertainty in market proposition*** Commissioned research indicated varying levels of awareness amongst borrowers around climate change, mitigation, support available and understanding of EPC ratings. There is a potential risk that landlords might be leaving or not entering the market if climate risks make investment less attractive. ***Policy and legal*** – exposure to litigation. ***Reputational*** – increased concern or negative feedback from the Group's stakeholders. **Operations** **Physical risk (long term)** Increased severity of extreme weather events such as cyclones and floods. The Group's operations in the UK and OSBI could be impacted by an increased number or severity of extreme weather events. Increased costs may be incurred during the period in which operational processes are recovered. **Transition risk (long term)** ***Increased pricing of GHG emissions, enhanced emissions-reporting obligations*** The Group offsets its Scope 1, Scope 2 and some Scope 3 categories (seen note below) on an annual basis, whilst it aims to reduce total emissions. It is expected that the cost of offsets from the voluntary carbon market will increase significantly towards 2030. In addition, it is reasonable to anticipate that the government may introduce policy mechanisms to penalise fossil fuel use in support of the government's net zero ambitions. Note: offsetting covers Scope1, Scope 2 (market-based) and UK Scope 3 (business travel, waste from operations, energy related activities not reported in Scope 1 and 2 and OSBi operations (purchased electricity – market based), gas oil, fugitive emissions, employee community and upstream leased assets) for the year ended 31 December 2023.	• Further expand the Group's scenario analysis to a wider range of transition risks. • Launch further climate-friendly products, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks. • Consider the Group's climate financial risks within th Group's planning processes.	See analysis on pages 51 and 102.

Task Force on Climate-Related Financial Disclosures continued

Strategy continued

Achievements	Opportunities for 2024	Further details
3) Climate-related risks and opportunities identified over the short, medium, and long-term: continued		
Opportunities **Lending** Products and services (short term) • increased revenue through demand for lower emissions products and services. • improved competitive position to reflect shifting consumer preferences, resulting in increased revenues. • green financing and lending products have the ability to finance retrofit new build projects that increase carbon efficiency or reduce the carbon footprint of investments contributing to real economy decarbonisation, and the Group's ambitions and commitments. • The Group undertook and commissioned research in the mortgage market in late 2022 to fully understand broker and customer perceptions, attitudes and knowledge in this area, and will regularly refresh the research to identify solutions that allow the market to meet the government's climate change commitments. The research was utilised in 2023 to support development of the Group's transition plan. Resilience (short term) *Increased revenue through new products and services* Transition planning is a significant focus for regulators and continues to gain the attention of shareholders. Suitable planning supports the ongoing resilience of the Group as a specialist lender. **Operations** Resource efficiency (short term) *Reduced operating costs (e.g. through efficiency gains and cost reduction)* Increasing the Group's energy efficiency is an opportunity that will reduce the ongoing operating costs of electricity and natural gas, which are the key drivers of Scope 1 and Scope 2 emissions. Increased efficiency also provides a level of protection against the current uncertainty of energy security and pricing. Energy source (short term) *Use of lower-emission sources of energy, use of supportive policy incentives* The use of low or zero carbon technologies is likely to reduce operating costs associated with carbon intense energy sources over the medium to long-term and the need to fund offsetting. The Group will also be afforded a level of protection from fossil fuel price increases.	• Expand the Group's scenario analysis to a wider range of transition risks. • Identify climate-friendly products, using the full range of the Group's brands, whilst being cognisant of any conduct risks. • Provide further thought leadership and broker/borrower education and awareness. • Consider the Group's climate financial risks within the Group's planning processes.	None.

Task Force on Climate-Related Financial Disclosures continued

Strategy continued

Achievements	Opportunities for 2024	Further details
4) Impact of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning:		
• Climate-related risks and opportunities are part of a wider ESG risk and opportunity analysis. The impact and importance of risks and opportunities are determined based upon a quantitative assessment where data is available, or a qualitative assessment of the potential for growth or cost management and the degree of importance to stakeholders. • During 2023, further progress was made in managing risks and developing potential areas of opportunity with respect to products and services, the supply/value chain mitigation activities and operations. The Group's current strategy and simple business model mean that risks and opportunities relating to investment in research and development, acquisitions and access to capital are deemed non-material and therefore were not areas of focus for 2023. • The Group developed its first Climate Transition Plan which sets out the roadmap and steps the firm intends to take in progressing towards its committed emission reduction targets. • In 2023, the Group re-measured its Scope 3 financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology. The PCAF calculation covers the mortgage portfolio as the largest asset class. It does not cover non-mortgaged portfolios or securitised loans. • The Group's financial plans are set on an annual basis and are reviewed and refreshed quarterly. They consider, among other matters, the Board's risk appetite, macroeconomic outlook, market opportunity, the competitive landscape and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements. For the 2023 financial plans, the Board considered all principal and emerging risks including climate risk, where the risk is likely to emerge, outside of the viability assessment horizon.	• Enhance the Group's approach to defining the impact of climate-related risks and opportunities beyond current scenario analysis of physical and transitional risks. • Identify and develop further opportunities in relation to products and services, the Group's supply chain where further improvements in the Group's climate risk profile can be delivered. • Continue to monitor and manage Scope 3 financed emissions against agreed targets. • Consider opportunities such as green funding, green savings, securitisation, climate risk underwriting criteria and ESG awareness campaigns to pursue the most impactful opportunities and support customers in their transition. • Formalise and include climate-related inputs into the financial planning process.	See Climate Transition Plan on the Group's website. See Sustainability Report pages 69-80 for further details. See Risk review on page 51 for further detail on the impact of the climate risk on the business.
5) Resilience of the Group's strategy taking into consideration climate-related scenario analysis:		
• The Group's ICAAP considers the resilience of its strategy and loan portfolios to climate risks such as floods, coastal erosion, subsidence, and minimum EPC ratings. The latest ICAAP assessment indicated that the Group has a low risk to climate change, and its strategy and business model performs resiliently across a number of climate scenarios. See Scenario Analysis section for more information.	• Further leverage the results of the Group's ICAAP climate risk assessment and risk appetite analysis to inform go forward climate risk management strategy.	See Risk review on page 51 for further detail on the Group's approach to analysing climate risk.

Task Force on Climate-Related Financial Disclosures continued

Risk Management

Achievements	Opportunities for 2024	Further details
6) Processes for identifying and assessing climate-related risks:		
• Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group which feeds into the assessment of transition risks. • The Group's risk function continues to assess climate risks against its key principle (traditional banking) risks and considers credit risk as the key risk which could be adversely impacted by future climate change. • Climate risk is also a consideration of the Group's wider assessment of ESG risks and opportunities which uses the outputs of scenario analysis to support the assessment of material ESG risks and opportunities, which further informs the ESG strategy. Within the context of ESG risk and opportunities, potential impact on growth or cost management and the degree of importance to stakeholder groups are assessed. Climate related topics are identified and considered from a wide range of global issues, industry, and sector specific considerations, such as regulatory and disclosure requirements and Group specific inputs such as our Purpose, Vision and Values and ESG Operating Framework and Strategy. The Group used the approaches and processes set out in the ERMF to identify and assess all risks including climate risk. • The enterprise risk register process allows the Group to consistently size, scope and reassess the relative significance of all risks including climate risk, considering the likelihood and potential impact of the risk emerging to provide an inherent risk rating. Risk mitigants are documented and constantly assessed and enhanced to ensure climate related risks are managed appropriately. • Scenario analysis is used as a valuable tool to understand and inform the potential impact of climate change on the Group's loan portfolios. It consisted of climate change portfolio analysis (covering both physical and transitional risks), including an assessment of EPC ratings in the UK.	• Further engagement to ensure customers are being supported in reducing their carbon footprint. • Further enhance climate risk management information with ongoing trend and scenario analysis • Embed climate risk into the Risk and Control Self-Assessment (RCSA) process, which will enable the identification of climate-related risks in a proactive manner and embed the right climate risk behaviours across the Group. • Provide further Board training to assist with the ongoing identification of climate-related risks.	See Risk review on page 51 and the Sustainability Report on pages 72-78 for more information.
7) Processes for managing climate-related risks:		
• The existing lending policies and criteria help to manage climate risk across the Group's loan portfolios i.e., setting out the EPC requirements for Buy-to-Let lending. Flood, subsidence, and coastal erosion risks are in part mitigated by independent property valuation, which forms part of the underwriting process. • Climate risk appetite statements and limits remain in place helping to inform the Group's strategy and facilitate monitoring of the Group's climate risk profile. • Climate-related horizon scanning is in place to monitor regulatory or legislative changes which could impact the Group and feeds into the assessment of transition risks. • Business continuity plans and disaster recovery plans were updated to reflect risks from extreme weather and establish appropriate plans to mitigate the associated risks. Threat risk assessments are conducted on both UK and Indian sites annually to support the robustness of business continuity plans. • On an annual basis, the Group conducts a complete review of its loan book from a climate perspective. This enables the Group to determine the potential impact of climate-related risks. • The Group enhanced its risk and opportunity analysis for ESG matters in 2023 which included climate risk, physical and transitional considerations, with the physical transition remaining a key focus. • The Group aligned its scenario analysis processes with UKCP18 climate change predictions for the UK that were issued by the Met Office in collaboration with other agencies.	• Continue to monitor the EPC profile of new originations and existing lending stock versus risk appetite and actively manage the profile as required.	None.

Task Force on Climate-Related Financial Disclosures continued

Risk Management continued

Achievements	Opportunities for 2024	Further details
8) Integrating climate-related risk processes into overall risk management:		
• Climate risk was further embedded into the Group-wide ERMF via the operation of the Climate Risk Management Framework. During 2023 climate risk was further embedded within several wider sub-risk frameworks. • The Group's three lines of defence model continued to work effectively with a focused internal audit of the Group's climate risk management arrangements, which were reported as being fit for purpose.	• Create and implement a climate (and wider ESG) training plan to ensure that all relevant employees receive appropriate training. • Identify key roles where further or expanded knowledge or competence is required to deliver on the Group's ambitions and commitments.	None.

Metrics and Targets

Achievements	Opportunities for 2024	Further details
9) Metrics used to assess climate-related risks and opportunities:		
The Group uses a variety of metrics to assess climate-related risks and opportunities and has considered all cross-industry metrics and has determined the below to be the most important (further information of historical performance is detailed within the Sustainability section). **Physical risk** • Properties within 1,000m of the coastline should the maximum emission scenario prevail, i.e. no climate action is taken and the worst-case scenario prevails. • Properties exposed to flood alert zones. • Properties with a 0.5% exposure to subsidence risk within a 10-year term in the maximum emission scenario. **Transition risk** • Portfolio EPC distribution at levels F and G. • GHG emissions are calculated using the GHG Protocol Corporate Standard and the Group's criteria for reporting. • Scope 3 financed emissions tonnes of carbon equivalent (tCO_2e)/m^2 using PCAF methodology. • Scope 1 and 2 (location-based and market-based) absolute emissions in tCO_2e by emissions source. • Scope 3 categories 1-8 in tCO_2e. • Scope 1 and Scope 2 (location based) tCO_2e as a proportion of full-time equivalent employees (FTE) per m^2 of corporate real estate under operational control.	• Consider additional metrics and targets as the Group continues its ESG journey and transition planning • Continue to manage the Group's climate risk profile (both physical and transition risks) in accordance with risk appetite thresholds and limits. • The Group will consider carbon pricing during the implementation of the Transition Plan.	See Sustainability Report on pages 72-78 for more detail on historic performance and future targets. For portfolio metrics see insights from our scenario analysis page 102.

Task Force on Climate-Related Financial Disclosures continued

Metrics and Targets continued

Achievements	Opportunities for 2024	Further details
10) Scope 1, 2 and 3 GHG emissions and the related risks:		
• Scope 1, 2 and 3 emissions have been disclosed (where relevant and available for Scope 3), emissions are calculated in line with the GHG Protocol Corporate Standard. Criteria for reporting GHG emissions can be found on the Group's website. • Intensity ratios were established and reported on: • Scope 1 and Scope 2 (location based) tCO_2e per FTE and per corporate real estate under operational control. • Scope 1 and Scope 2 (location based) tCO_2e per £m total income. • Scope 3 – financed emissions only –$kgCO_2e$ per m^2.	• Assess the risks and opportunities associated with the Group's Scope 1, 2 and 3 emissions in 2024 and manage accordingly.	See Sustainability Report on pages 72-78 for further information.
11) Targets used to manage climate-related risks and opportunities:		
• In 2022, the Group committed to achieve net zero GHG emissions by 2050 in line with the 2015 Paris Climate Accord. • An interim target for financed emissions was set in 2022. The Group's ambition is to reduce the intensity of emissions from mortgage lending by 25% versus the Group's 2022 baseline by 2030. • The Group's ambition is to reduce Scope 1 and 2 emissions (market based) to zero by 2030. • For further details on how climate-related risks and opportunities are linked to Executives and senior managers' remuneration, see Director's Remuneration Report on page 147.	• Track performance against the agreed Climate Transition Plan, taking management actions if required. • Include GHG Scope 1 and 2 emissions reduction targets in the Executive and senior managers' long term incentive plans. • Consider further enhancing metrics and targets as risk management and transition planning matures.	See Climate Transition Plan on the Group's website.

Task Force on Climate-Related Financial Disclosures continued

Insights from our scenario analysis: key drivers

OSB Group plc is a leading mortgage lender predominantly in the professional Buy-to-Let and specialist Residential market sub-segments secured against residential property. The Group also provides loans to limited companies and individuals secured against commercial and semi-commercial properties, residential development financing, funding lines to non-bank finance companies and asset finance lending.

At present the Group has identified the physical risks relating to flooding, subsidence and coastal erosion reducing the value of properties as well as the ability of borrowers to afford or refinance their mortgages, as the most material physical climate risks to be assessed and managed. The Group has also identified the transitional risks relating to changes in regulatory policy resulting in material levels of investment being required to ensure minimum EPC requirements are met. This spend for example, may be required to ensure Buy-to-Let properties are eligible to let, loan to value levels are not adversely impacted, void periods and defaults do not materialise which would result in loan losses and higher capital requirements. As such the Group considers the above risks as the most material and therefore focuses on their assessment, monitoring and management.

The climate risks relating to the Group's operational premises are considered less material than the physical and transitional risks to the properties which underpin the Group's loan portfolios.

Insights from our scenario analysis: impact on the Group

Physical risk

The Group's physical risk profile remained broadly stable during 2023, when compared to 2022.

The physical impact of climate change on our real estate portfolio across the UK is expected to be limited.

Sensitivity analysis completed using RCP scenarios on increases in global temperatures by 2100, compared the least severe scenario (RCP 2.6 – increase of 0.9°C to 2.3°C) to the most severe (RCP 8.5 – increase of 3.2°C to 5.4°C).

At a Group level, the analysis shows that the exposure to the probability of flood over the next decade increases by 0.04% from the best-case scenario to the worst-case scenario, only 0.46% of the Group's portfolio is in an area with a flood risk greater than 20%. For subsidence, the increase from best-case to worst-case increase is 0.05%, with the portfolio risk of subsidence being less than 0.5%. For coastal erosion, across the Group over 92.6% of the portfolio is more than 1,000 metres from the coastline. Of the properties within 1,000 meters, only 121 are in areas likely to experience coastal erosion.

Transitional risk

The Group observed marginal improvements in EPC ratings for existing stock assessed in both 2023 and 2022. In addition, enhancements in the climate data processes improved insight into the transitional risk profile.

At a Group level, c.41% of properties (2022: 40%) have an EPC rating of C or better, c.46% (2022: 45%) have an EPC rating of D, c.12% (2022: 13%) an EPC rating of E and c.1% (2022: 2%) have an EPC rating of F or G. Of the properties with an EPC rating of D or worse, c.92% (2022: 91%) have the potential to reach at least an EPC rating of C.

Adverse movements in the EPC rating distribution of the Group's loan portfolios and any potential change in government policy have the potential to result in larger future financial impact for the Group. To mitigate this risk, the Group actively monitors and assesses the possible financial risks associated with the EPC rating distribution of the Group's loan portfolios and horizon scans for any changes in regulatory or governmental policy.

During 2023, the Group ensured consistency between internal analysis covering the setting of ciimate risk appetite, ICAAP and other ad hoc analysis with data, scenarios and assumptions used to support the Group's financial disclosures. The Group's current risk appetite, ICAAP and IFRS9 climate risk assessments have all indicated that the Group is currently exposed to a low climate related financial risk, using the materiality assessment scale which supports other financial disclosures within the Group's Annual Report and Accounts.

EPC rating of the Group's portfolio