osb Group

Climate Transition Plan

2023

Our Purpose is to help our customers, colleagues and communities prosper.

Our Values are what our colleagues stand by, and support us in achieving our Purpose.

What we do

We are committed to delivering our Purpose and a sustainable future for our customers, colleagues, communities and the planet.

In practice, this means reducing the carbon emissions of our operations, supply chains and lending activities and the impact we have on the people we affect directly and indirectly everyday.

“At OSB Group, we are steadfast in our commitment to playing a leading role in addressing climate change within the sector.”

Andy Golding
Chief Executive Officer

Foreword from our CEO on **Page 04**

What’s inside...

Download our Annual Report www.osb.com/investors/results-reports-presentations

For more about our Net-Zero Banking Alliance Targets www.osb.co.uk/sustainability/our-environment

Introduction

This Climate Transition Plan disclosure is consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) requirement under the Strategy pillar to 'Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.'

Cautionary note

Within our ESG and climate-related disclosures we have tailored our approach to materiality to suit the subject matter and purpose of the disclosure. This involves considering: 1) relevant existing and emerging external reporting and disclosure frameworks; 2) the Group's Purpose, Vision and Values; and 3) matters identified as significant across our key stakeholder groups.

Our approach to materiality allows for the inclusion of information in our ESG and climate-related disclosures that may not be present in other areas of disclosure, which may use a different materiality framework and time horizons.

Given the evolving and interconnected nature of climate transition planning, climate-related disclosures inherently involve a degree of uncertainty. They often rely on assumptions and estimates more extensively than standard financial disclosures, necessitating recognition that they are subject to change over time.

Our approach to climate risk management, including impact and opportunity quantification continues to evolve, as does the availability and quality of supporting data. This introduces a level of uncertainty and the likelihood of needing to revise or update provided information. Our assessment of external factors and their effects on the Group currently relies somewhat on research and data from third parties, some of which may not be independently verified.

Foreword from the Group Chief Executive Officer

Building a sustainable future for our customers, colleagues and communities

At OSB Group, we are steadfast in our commitment to playing a leading role in addressing climate change within the sector. Our dedication extends beyond the development of products; it encompasses raising awareness of the critical issues facing our stakeholders now and in the future. We recognise that this endeavour cannot be undertaken in isolation. Improving the UK's housing stock is a monumental undertaking that demands collaborative efforts with our peers, business partners and the cooperation of our customers, who rely on collective support.

Our research indicates that customers are increasingly embracing decarbonisation efforts. Now, it is imperative for the industry to collaborate and facilitate their journey towards sustainability. OSB Group holds a privileged position whereby our actions can influence the quality of the UK housing stock. By offering targeted products and services, we can incentivise landlords to enhance the energy efficiency of their properties while simultaneously adding value to their portfolios. This proactive approach also fulfills landlords' social obligations, thereby enhancing the tenant experience and aligning with our Purpose of fostering prosperity for customers, colleagues and communities.

Presented here is our inaugural Climate Transition Plan, outlining the actions we have undertaken and those we intend to pursue in future years. Committed to the long-term sustainability of the specialist sectors we serve, we anticipate regular updates to this plan as it evolves and matures over time.

We were proud to join the Net-Zero Banking Alliance (NZBA) in 2022 and pledged to meet our net zero target by 2050. In 2023, we unveiled our initial 2030 target to reduce the emissions intensity of our mortgage portfolio by 25% and committed to reducing the direct emissions from our office and branch buildings to net zero by 2030.[1]

Beyond target setting, practical progress was made in 2023, closely engaging with the residential property market and the private rented sector. We delivered transition products that result in energy efficiency improvement for our customers' mortgaged properties and established a clear mission for our Landlord Leaders Community. We partnered with Sero, a net zero homes specialist, to trial an innovative approach to pathways to zero and removed gas heating from one of our primary office locations.

As a specialist lender, we acknowledge our role within the broader challenge of decarbonising the UK housing sector. Progress hinges on external factors beyond our direct control, including consumer decisions, advancements in low-carbon solutions, and a supportive policy environment. We note the UK Government's independent net zero review, emphasising the imperative for collaborative action to seize opportunities and reduce costs effectively.

Despite commendable acknowledgments by the government regarding the challenges faced by the Private Rented Sector, clarity and consistency in long-term policy commitments are vital for realising the potential of energy-efficient, low-carbon homes.

Our transition plan gives priority to areas where we can deliver tangible value to our stakeholders, acting within our areas of influence, while seeking collaboration opportunities across sectors. We remain committed to embedding climate change considerations into our business processes, ensuring a just transition that balances environmental stewardship with shared prosperity for our customers, colleagues and communities.

Andy Golding
OSB Group Chief Executive Officer

1 Direct emissions target uses the market-based methodology for Scope 2 emissions

Who we are

Our Purpose

To help our customers, colleagues and communities prosper

By that, we mean more than just helping people become more financially well off. We want them to flourish, thrive and succeed in their personal and professional goals.

Our Vision

To be recognised as the UK's number one choice of specialist bank, through our commitment to exceptional service, strong relationships and competitive propositions.

As a leading specialist mortgage lender, OSB Group primarily targets selected sub-segments of the UK mortgage market, including Buy-to-Let, Residential (inclusive of Help to Buy and shared ownership), complex commercial and semi-commercial, development finance, bridging and asset finance.

We refrain from financing or investing in the fossil fuel industry. Furthermore, we avoid lending into carbon-intensive sectors, including agriculture, aluminium, cement, coal, iron and steel, oil and gas. Consequently, these sectors are not directly pertinent to our Climate Transition Plan and are excluded from consideration.

Our focus extends beyond lending and savings; we are dedicated to reducing our impact on the environment. Central to our ethos is our Stewardship value, which drives us to give back to our communities, support vulnerable customers, champion diversity and safeguard the environment.

Aligned with our purpose of fostering prosperity for our customers, colleagues and communities, our environmental initiatives, particularly our response to climate change, underscore our commitment to conscientious action. In 2022, the Group pledged to address operational emissions from our offices and branch buildings, as well as the more complex emissions associated with the properties we finance.

We embody our ambition in our ESG strategic commitment to achieving net zero emissions across our broader business activities by 2050, aligning with the goals of the Paris Climate Agreement to limit global warming to below 2°C and pursue efforts to limit it to 1.5°C.

While specific details of the UK Government's commitment to reducing greenhouse gas emissions are forthcoming, we believe it is imperative to make such pledges and take a proactive stance. Through these commitments, bolstered by emerging regulations, organisations like ours can set a trajectory towards ambitious targets.

In 2022, the Group joined the United Nations Net-Zero Banking Alliance (NZBA), acknowledging that achieving net zero requires collaborative support from key stakeholders across industries and beyond, including policymakers. As part of this alliance, we, along with other financial services entities, commit to transitioning operational and attributable Greenhouse Gas (GHG) emissions from our lending and investment portfolios to align with pathways to net zero by 2050 or sooner. This includes setting 2030 targets (or sooner) and a 2050 target, grounded in the acceptance of climate science necessitating rapid and substantial greenhouse gas emissions reductions across all sectors in this decade.

Our climate strategy

Our inaugural Climate Transition Plan builds upon the foundations established by our Task Force for Climate-related Financial Disclosures (TCFD) conducted over the last two years. Encompassing the most material aspects of our lending activities (mortgages) and direct operations, this plan signifies our commitment to ongoing evaluation and review, to ensure alignment with our broader strategy and industry best practices.

We are aware of the guidance provided by the Transition Plan Taskforce (TPT) Disclosure Framework and the Financial Conduct Authority's intention to consult on rules and guidance for listed companies to disclose in line with the TPT Framework. We intend to bring our disclosures into alignment with TPT guidance in 2024.

1 Value chain is defined as those Scope 3 categories assessed as relevant following GHG Protocol Corporate Value Chain Standard

Our purpose — **To help our customers, colleagues and communities prosper**

Our ambition — **Net zero across our financed emissions and our operational value chain[1] by 2050**

Our objectives

- **We have an ambition to reduce the carbon intensity of our mortgage lending by 25% by 2030 from a 2022 baseline**
- **We plan to achieve net zero emissions in Scope 1 and Scope 2 by 2030**
- **We plan to reduce our financed emissions to net zero by 2050**

Our pillars for action

Thought leadership, education and awareness
Through research we provide thought leadership, aiming to start a conversation towards creating a fair sector for all, offering education and raising awareness of the issues faced in creating a sustainable sector

Connecting our customers
Seeking ways to connect customers to the information and services they want and need, creating a positive environment for change

Transition-friendly products and services
Our approach to transition products and services places priority on delivering on our customers needs, aligned to increasing energy efficiency and reducing emissions from UK housing

Greening our offices and branches
We accept responsibility for ensuring our buildings deliver on our net zero ambition and recognise that we can achieve this earlier than the emissions we finance

Continuing to embed climate thinking
Further embedding climate thinking into our management processes, ensuring we have expertise where it is needed to manage risk and deliver on opportunities

Underpinned by our ESG Strategic commitments

Net zero
The Group's climate ambitions and Climate Transition Plan will align to the Paris Climate Agreement on climate change, achieving carbon net zero across our operational emissions by 2030 and our total emissions by 2050

Customers
The Group's approach will be appropriately inclusive for our customer base, ensuring that the social mobility of our customer base is not compromised through our product decisions

Thought leadership, education, awareness and products that enable, incentivise and reward our customers to embrace the transition to a low carbon housing economy

Supply and Value Chain
We will encourage and support our value and supply chain with their transition to an ESG strategy that aligns to the Group's ambitions

Technology
The Group seeks to use technology solutions that align to our net zero ambitions

Supporting SDGs

Our progress

Summary

During 2023, we focused on establishing 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 this Climate Transition Plan.

We established our inaugural science-based target for financed emissions, specifically in mortgage lending. This milestone aligns with the commitments we made upon joining the Net-Zero Banking Alliance. Concurrently, we developed our first climate transition plan to further advance our sustainability initiatives.

The adjacent graphs show performance in 2023 against our established targets.

Scope 1 and 2 emissions

Operational emissions (Scope 1 and 2) increased in 2023 predominantly due to the Group purchasing a new office building in Wolverhampton and a house in Chatham. Both actions are part of the corporate real estate plan and facilitate future emissions reductions as the Group consolidates locations, maximises efficiencies and transitions away from fossil fuel based heating solutions.

The Group's Scope 2 emissions using the market-based methodology were 1.39 tCO_2e for 2023, as 99% of the electricity purchased was from renewable tariffs. 16,958 kWh were from non-renewable tariffs, as contracts were migrated following the purchase of new buildings. Using the location-based methodology, reflecting the average emissions intensity of grids on which energy consumption occurs, emissions were 396.95 tCO_2e, a 23% increase from 2022. This was predominantly due to the acquisition of the new office building.

Our consumption of natural gas increased by 116,008 kWh (+16%) from 2022. Again this was mainly due to the new office location that used 188,167 kWh of gas, 22% of total gas use. Without the inclusion of the new locations, gas consumption reduced by 11% (80,485kWh) versus 2022.

Financed emissions

Our attributed financed emissions from the lending portfolio are calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology, allowing us to monitor and report progress. Our PCAF data quality score was 3.1 (2022 – 3.2).

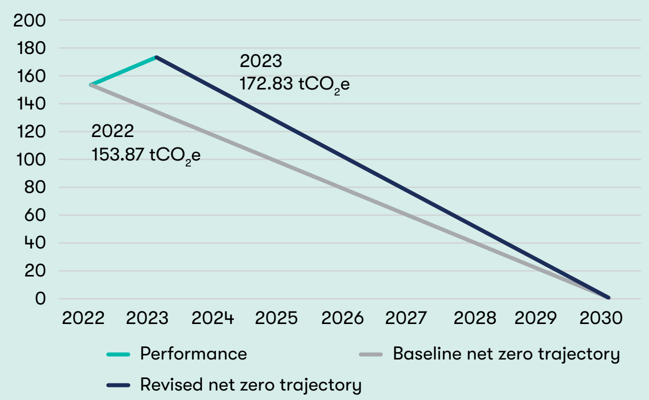
The PCAF method attributes a proportion of the total emissions of a property, taken from the Energy Performance Certificate (EPC) to the lender based on the outstanding value of the loan versus the value at origination.

The 2023 calculation saw a 13% reduction in financed emissions (tCO_2e) and a 17% reduction in emissions intensity to 24.89 $kgCO_2e/m^2$. This reduction is predominantly due to improved data quality and the exclusion of erroneous data extracted from the EPC public register, however some improvement is noted where EPCs have been updated to a new, higher rating.

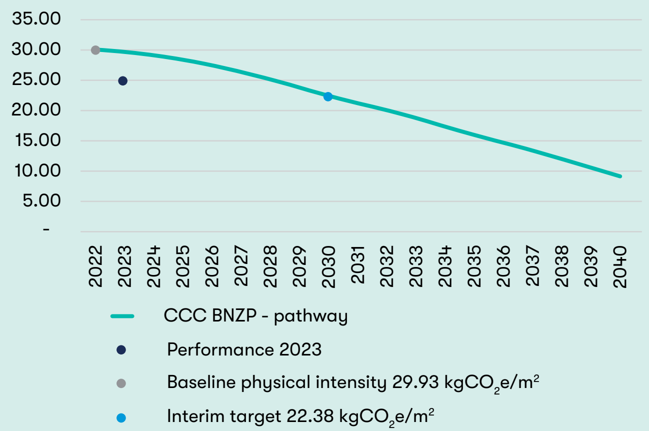
Financed emissions estimates rely on externally sourced data. The emissions of the buildings were sourced, where available, from Energy Performance Certificates (EPCs) which estimate the carbon emissions of a property. In 2023 83% of properties were matched to a valid EPC, 17% were modelled or estimated based on postcode or national averages, the remaining less than 1% were allocated a D rating.

There are inherent limitations in using EPCs to calculate financed emissions, such as the time lag for external data sources to be updated, the age of certificates and the methodology failing to prioritise carbon neutral over fossil-fuel-based technologies.

Operational emissions – Scope 1 and Scope 2 (market-based) tCO_2e



Mortgages – Financed emissions physical intensity ($kgCO_2e/m^2$)



Our progress continued

Pillars of action

Providing thought leadership, education and awareness
The Landlord Leaders Community outlined four key areas of focus and articulated its vision for success in each. This included a dedicated commitment to education and training aimed at providing comprehensive programmes and guides for landlords to enhance their understanding of rights, responsibilities and industry best practices, particularly regarding sustainability.

OSB Group published thought leadership research in 2022, focusing on the evolving landscape of the Private Rented Sector through an ESG lens. The research influenced our strategic direction to bolster support by providing education and awareness. In response to these insights, the Group set out a suite of initiatives to assist landlords in creating socially-conscious and environmentally-friendly rental housing.

This approach underscores our recognition of the complex and interconnected nature of decarbonising UK housing and reflected our commitment to a responsible transition, mindful of the implications for both our workforce and customers.

Connecting our customers
This pillar aims to facilitate a seamless decarbonisation journey for our customers. This focus is important for us as a specialist lender, given our intermediary led model. We do not control the decisions of our customers, but we can support them with access to information and services when they need it.

Internal research identified interconnected friction points along the retrofit value chain that could hinder customer progress. Our goal is to connect the components of the supply chain with the customer journey, giving customers access to information, services and solutions they can trust and that yield the desired outcomes.

Throughout 2023, the Group explored potential partnerships with organisations sharing our ambition or offering solutions. Further efforts are planned for 2024.

Providing customers with transition-friendly products
Our current energy efficiency products are designed to enhance energy efficiency during the refurbishment process, although uptake of these products has so far been limited. We seek to effect real economy change, enhancing the quality and energy efficiency of UK housing and thereby improve the experiences of our customers and their tenants. We are prioritising products that support decarbonisation or deliver energy efficiency benefits.

Additional, dedicated resource supported the development of our proposition that will see further products launched in 2024.

We acknowledge the trade-offs involved in our approach, particularly the balance between promoting a Just Transition and maintaining a 'green' balance sheet, while also engaging and transitioning to energy-efficient properties over time. Our strategy prioritises achieving a balance between social impact and environmental considerations as we progress towards our goals.

Sero case study

In partnership with Sero, experts in net zero carbon homes, we established a pilot project, engaging with landlords to provide a free-of-charge property survey, that provided insightful results. Each landlord was given a property-specific Pathway to Zero that guides them to achieving a net zero home through a step-by-step plan tailored to each property. Landlords additionally had the option to install a Sero Buildings Energy Engine, an intelligent system that monitors energy use and suggests ways to reduce consumption and consequently lowers carbon emissions.

Thirty landlords participated and those who provided feedback were satisfied with the results, but hesitant to invest without clear rules on Minimum Energy Efficiency Standards and Energy Performance Certificates. They indicated however they would be ready to take action once the Government provides clearer guidelines.

The findings of this pilot informed our climate strategy, highlighting the need to connect our customers to the retrofit value chain, as well as ongoing thought leadership, education and awareness that includes engagement with the Government.

Our transition roadmap

2015

2022

OSB Group joined the Net-Zero Banking Alliance and committed to net zero by 2050 G

Baseline set for Scope 1 and 2 and Scope 3 category 15 F

Disclosure made against TCFD G

2023

Interim net zero target set for financed emissions-mortgages (25% reduction by 2030)

Net zero Scope 1 and 2 by 2030 target set F M G

Data – defined data needs and investigated solutions F

Resource – key transition skills identified and resource deployed F

Landlord Leaders Community established E

Corporate real estate strategy aligned to net zero ambition I

Initial products launched, rewarding retrofit I

Transition Working Group established G

2024+ →

Inaugural Climate Transition Plan published G

Transition aligned product development process and services targeted to drive change I E

Work with our supply chain to understand and reduce emissions I E

Investment in decarbonising corporate real estate I

Deep expertise use to inform and educate brokers and customers E

Landlord Leaders Community amplify the voice of the customer to influence the net zero agenda E

2030

Achieve net zero across Scope 1 and 2 emissions with limited offsetting

Reduce financed emissions by 25% F M

2050

Achieve net zero across operations and value chain by 2050, cutting most emissions and balancing remaining emissions with natural or technical solutions F M

Paris Climate Agreement

INTERIM TARGET- Financed emissions

NET ZERO- Scope 1 and 2

2050 Net zero emissions across all lending and operations

TPT principles

AMBITION

ACTION

ACCOUNTABILITY

TPT elements:

F Foundations

I Implementation strategy

E Engagement strategy

M Metrics and targets

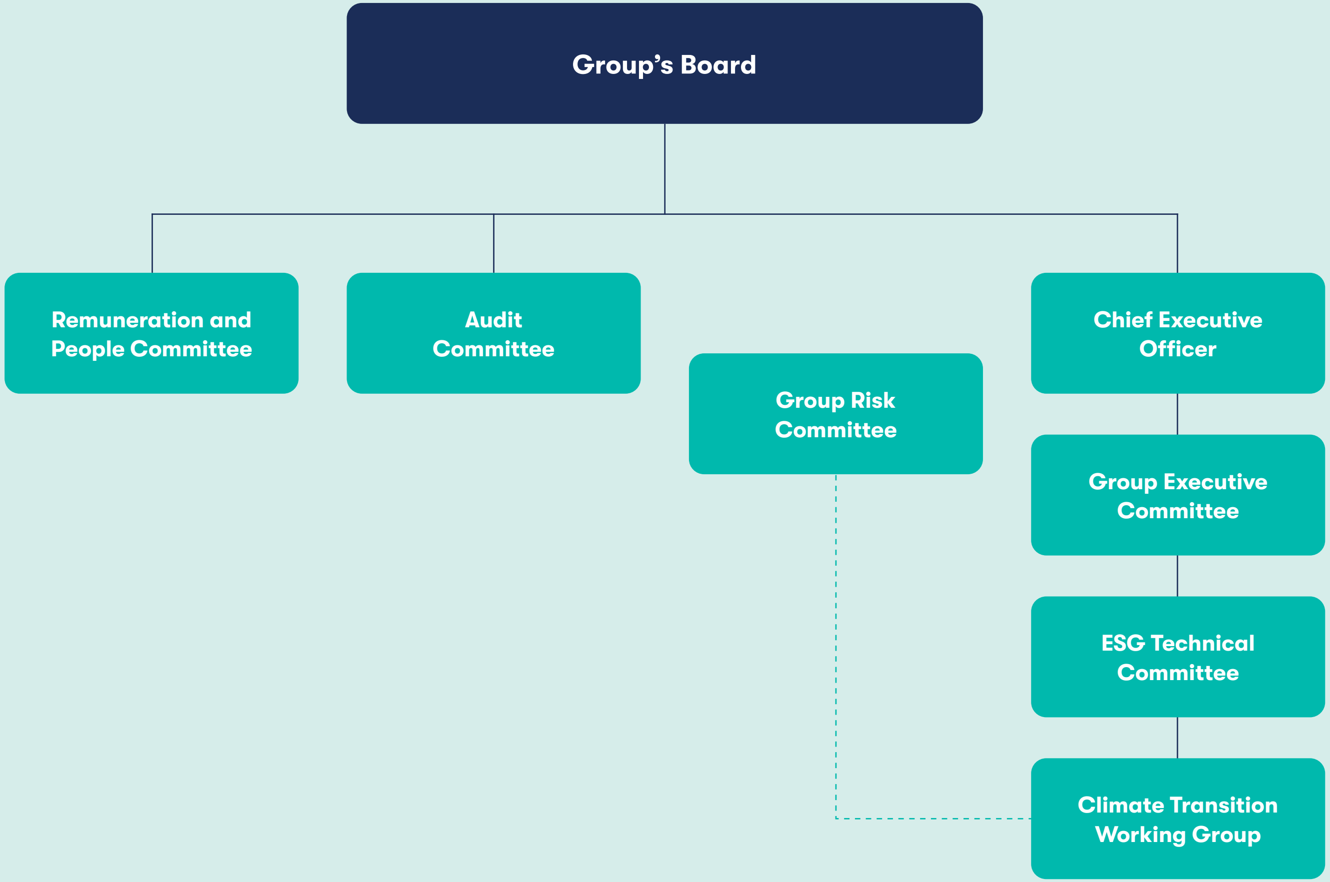
G Governance

Governance

Transition Governance model

OSB Group adopts a thorough approach to risk management ensuring the effective identification, assessment, monitoring and management of all risks as defined by the Group's Enterprise Risk Management Framework (ERMF).

Climate risk is classified as a cross cutting enterprise risk within the ERMF. The Climate Risk Management Framework is a sub-framework which supports the Group with embedding the principles and approach outlined within the ERMF.



- Incentives and remuneration

- Assurance
- Verification
- Audit

- Risk appetite
- Risk monitoring
- Provisioning
- Capital and liquidity management

- Transition plan development
- Review and approval
- Monitoring implementation

Accountability and decision-making

Role of the Board

The Board review the climate strategy and ensure that it is implemented robustly, receiving regular updates. The Board agree the Group's climate-related risk appetite and obtain assurance (for example, from the Internal Audit function) that the risks are effectively managed and controlled.

Role of Group Risk Committee

The Committee's primary responsibilities in respect to climate risk management are:

- Review climate risk progress reports
- Monitor performance against risk appetite
- Monitor management actions when formally defined
- Assessment of the Group's climate risk disclosures

The Board delegates responsibility to the Group Risk Committee for oversight of the Group's risk appetite, risk monitoring, provisioning and capital and liquidity management. The primary objectives of the Group's Risk Committee are therefore to provide oversight and advice to the Board on current risk exposures and future risk strategy and assist the Board in fostering a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group.

Role of the Group Executive Committee

The Group Executive Committee is the senior management committee responsible for climate risk.

The Group Executive Committee oversees the strategic direction of the Group's approach to climate risk and delegates the responsibility of day-to-day management of climate risk to the ESG Technical Committee.

Role of ESG Technical Committee

The ESG Technical Committee is the management committee responsible for climate risk, reporting to the Group Executive Committee. The objectives of the committee include:

- To act as the key cross functional forum for driving climate risk governance and climate risk management
- Monitor and report the performance of the Group's exposures to both physical and transitional climate risks
- Identify and act on opportunities for the enhancement of the Group's regulatory response to the effective management and reporting of climate-related risks

Role of the Climate Transition Working Group

The Climate Transition Working Group (CTWG) was established as a sub-committee of the ESG Technical Committee focusing on climate transition planning (the Group's strategy to pivot its existing assets, operations and business model towards a trajectory aligned with climate science recommendations and a low carbon economy), implementation and disclosure.

The objectives of the CTWG are:

- develop the Group's Climate Transition Plan, its implementation and monitoring and review processes
- oversee the coordination of the Group's climate related disclosures including but not limited to Task Force on Climate-related Financial Disclosures (TCFD) and Climate Transition Plan disclosures
- provide regular updates to the ESG Technical Committee, the Group Executive Committee and the Board on progress of the above
- advise ESG Technical Committee on the completeness and comparability of the Group's climate transition plan in relation to relevant frameworks, standards and peer disclosures

Internal Audit

Climate risk and wider ESG and sustainability matters are regularly considered by the Group's Internal Audit function, whose role is to independently assess the adequacy and effectiveness of governance, risk management and internal controls performed by the first and second lines of defence within the Group. Specific engagements are identified in the annual Internal Audit Plan.

In 2023 relevant internal audits included reviews of the Group's commitment to the Net-Zero Banking Alliance and climate risk management in accordance with SS3/19 and associated regulatory guidance.

Remuneration

The Group introduced ESG metrics to the Group's business balanced scorecard in 2022 within a weighted ESG quadrant that included a target for GHG emissions (Scope 1 and 2 absolute reduction). Further information can be found in the Director's Remuneration Report within the 2023 Annual Report and Accounts. From 2024 onwards, a financed emissions reduction metric, aligned to our interim target has been included in Performance Share Plan criteria.

Strategy

Our approach to climate risk and opportunities

Our Climate Transition Plan priorities are informed by an assessment of the Group's material sources of emissions and an evaluation of climate risks and opportunities pertinent to our activities. This approach ensures that our efforts are targeted towards areas that can have the greatest impact in reducing emissions, seizing opportunities for sustainable growth and delivering real economy change, whilst proportionately managing risk.

Further information can be found in the Group's TCFD disclosures contained in the 2023 Annual Report and Accounts.

Risks and opportunities are defined in the following categories:

Physical
Relates to climate or weather-related events such as heatwaves, droughts, floods, storms, rising sea levels, coastal erosion and subsidence. These risks could result in financial losses with respect to the Group's own real estate and customer loan portfolios.

Transition
Risks and opportunities arising from the effect of adjusting to a low-carbon economy and changes to appetite, strategy, policy or technology. These changes could result in a reassessment of property prices and increased credit exposures for banks and other lenders. Opportunities could include additional revenue due to increase in customer appetite for climate friendly products or services. Reputational risk arises from a failure to meet changing and more demanding societal, investor and regulatory expectations.

Time horizons
Each risk and opportunity is assessed over a specific time horizon, allowing for presentation of more immediate impacts and actions, whilst accommodating the nascent longer-term nature of impact and response.

The below time horizons were used:

Time horizon	Description	Relevance
Short term	0-5 years	The short-term time horizon aligns to the Group's planning and ICAAP stress testing assessment periods
Medium term	5-10 years	The medium-term horizon relates to risks and opportunities which are inside our long-term assessment horizon but sit outside of our short-term assessment period
Long term	>10 years	The long-term time horizon was utilised within scenario analysis to assess climate risks which may occur over a longer timeframe

The nature of the risks and opportunities pertinent to the Group can span various time horizons. Where applicable, we specify the time horizons associated with each specific risk or opportunity. This approach allows us to effectively address both short-term challenges and long-term strategic objectives in our planning and decision-making processes.

Climate related risks
The Group relies on data from a specialised third-party to inform the assessment and quantification of risks. This includes data related to flooding, coastal erosion, subsidence and Energy Performance Certificate (EPC) ratings. Further details regarding the identification, management, and monitoring of risks are provided in the Risk Management section of the TCFD disclosures within the 2023 Annual Report and Accounts.

In accordance with TCFD guidance, the Group evaluated risks and opportunities and determined those relevant and their significance based on impact on the financial plan, the Group's broader strategy, climate ambitions and the fulfillment of our Purpose. Whilst the Group's exposure to financial risk associated with climate change is not material, our commitments, ambitions and purpose drive us to seek opportunities to support the transition of UK housing.

Lending
Physical risk – Chronic – Long term
Changes in precipitation patterns and extreme variability in weather patterns, rising mean temperatures and rising sea levels

The Group provides loans secured on residential property, 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 this 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.

Our approach to climate risk and opportunities continued

Lending continued

Transition risk – Short term continued

Uncertainty in market proposition
Research commissioned by the Group indicated varying levels of awareness amongst borrowers in relation to climate change, mitigation, available support and understanding of EPC ratings. There is a potential risk that landlords might leave or not enter 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 in India 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 emissions[1] on an annual basis while it aims to reduce total emissions. Offsets do not contribute to the Group's net zero targets. Research suggests that the cost of offsets from the voluntary carbon market will increase significantly towards 2030.

In addition, it is reasonable to anticipate that government may introduce policy mechanisms to penalise fossil fuel use in support of its Nationally Determined Contributions.

Climate related opportunities:

Lending

Products and services – Short term

Increased revenue through demand for lower emissions products and services

Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Green financing and lending products play a pivotal role in financing retrofit and new build projects aimed at enhancing carbon efficiency and reducing carbon emissions. These investments contribute significantly to real economy decarbonisation and align with OSB Group's ambitions and commitments. The Group commissioned research to understand broker and customer perceptions, attitudes and knowledge in this domain. Regular updates to this research will enable the identification of solutions that facilitate the market's alignment with Government's climate change commitments.

As awareness of climate change and its impacts grows and momentum for change builds, it is reasonable to anticipate an increase in demand for products and services in this sector. However, this growth is contingent upon policy developments, access to data, technological advancements and the maturity of relevant supply chains.

Resilience – Short term

Increased revenue through new products and services related to ensuring resiliency
Transition planning is a significant focus for regulators and is gaining attention from investors. Suitable planning supports the ongoing resilience of the Group as a sub-sector specialist lender.

Operations

Resource Efficiency – Short term

Reduced operating costs through efficiency gains and cost reductions
Increasing the energy efficiency of our buildings (offices and branches) reduces ongoing operating costs of electricity and natural gas, which are the key drivers of Scope 1 and Scope 2 emissions for the Group. Increased efficiency also provides a level of protection against volatile 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 compared with carbon intense energy sources and reduce the need to fund further mitigation activities such as offsetting. The Group would also be afforded a level of protection from fossil fuel price volatility.

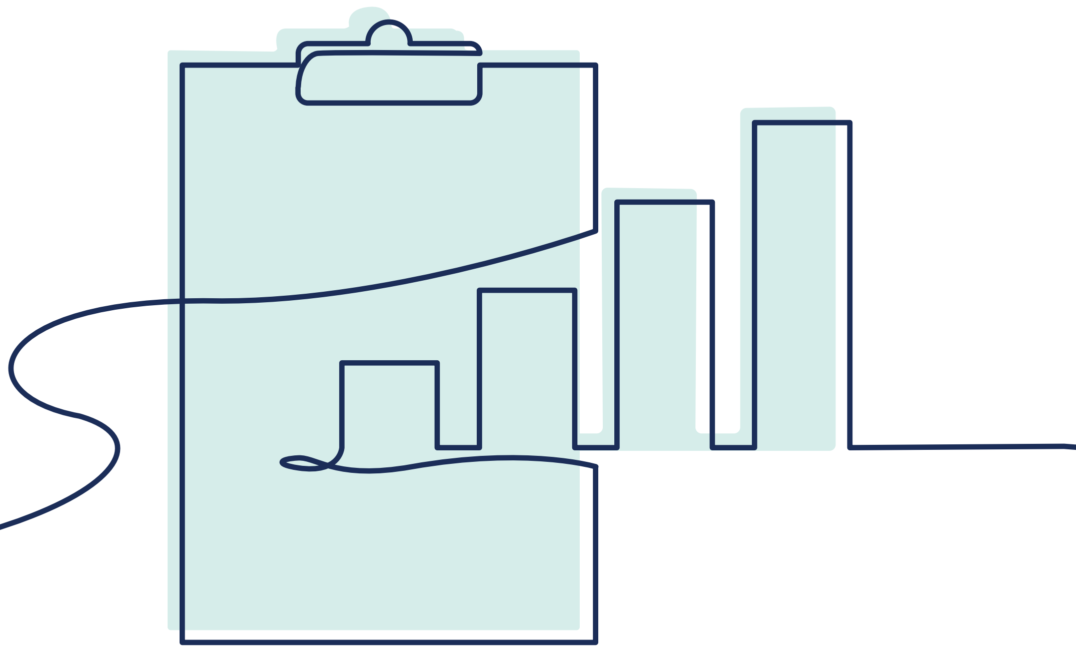
Government policy was identified as a significant dependency to the decarbonisation of UK housing. Supportive policy incentives are a lever available to Government to overcome a number of the barriers to increasing the scale and pace of retrofitting activity.

1 Business travel, waste, energy related activities not reported in Scope 1 and 2, employee commuting, upstream leased assets and OSB India (purchased electricity, gas oil, fugitive emissions)

Our approach to climate risk and opportunities continued

Below is a description of the potential financial impacts of each of these risks and opportunities and where they may manifest within our transition pillars.

Transition pillar	Potential financial impacts
Providing thought leadership, education and awareness	• Additional costs of funding research, marketing and engagement activity • Increased revenue through demand for climate friendly products and services • Reduced balance sheet exposure due to reduction in energy inefficient homes
Connecting our customers	• Additional costs associated with developing partnerships and collaborations • Additional costs of developing and/or integrating systems and processes • Decrease in emissions from lending due to customer actions reducing exposure to future costs of carbon for the Group • Increased costs of developing new products and services
Transition-friendly products and services	• Increased revenue through demand for climate friendly products and services • Reduced balance sheet exposure due to reduction in energy inefficient homes • Decrease in emissions from lending due to customer actions reducing exposure to future costs of carbon for the Group
Greening our offices and branches	• Additional costs of reducing emissions in our corporate real estate • Reduced operating costs due to greater energy efficiency/reduced consumption • Potential benefit of asset disposal/s
Continuing to embed climate change thinking	• Additional resource and/or people development costs to increase climate expertise • Additional operating costs in meeting new regulatory/environmental standards



Our ambition and targets

Our ambition to be net zero across our financed emissions and operational value chain by 2050 is supported by our 2030 targets that meet the requirements of our Net-Zero Banking Alliance commitment.

In 2023 we announced our first interim science-based target for mortgage lending and a net zero target for direct operational emissions[1].

Our established targets cover an estimated 97% of measured emissions.

More information can be found on our website www.osb.co.uk/sustainability/our-environment

Ambition

Net zero by 2050

2030 Targets

Operations

Net zero target – Direct operations

Targets:

- Reduce Scope 1 and Scope 2 emissions to net zero by 2030 from a 2022 baseline[2]
- Baseline emissions in 2022 were:
  Scope 1 – 153.87 tCO_2e
  Scope 2 (market-based methodology) – zero tCO_2e
- Ambition to source 100% of electricity from renewable sources where OSB Group have operational control

Financed emissions

Sector decarbonisation – Mortgages

Targets:

- Reduce the emissions intensity ($kgCO_2e/m^2$) of our mortgage lending by 25% by 2030 from a 2022 baseline
- Baseline emissions in 2022 were:
  Scope 3, category 15 – 363,680.00 tCO_2e
- Interim target reflects the reduction in the physical emissions intensity aligned with a climate change scenario pathway. The Committee for Climate Change BNZ Pathway and SBTi target calculation guidance were used to set this target

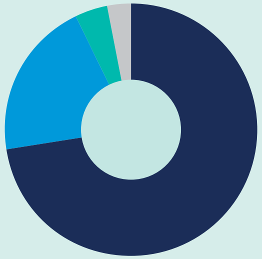
1 The reduction required to achieve net zero Scope 1 and 2 by 2050 is 99.6%. The Group aims to achieve this by 2030

2 Operational emissions target is defined as Scope 1 and Scope 2 (market-based methodology)

Our ambition and targets continued

Financed emissions – Mortgages

£25.8bn
Net loan book at 31 December 2023



- Buy-to-let **73%**
- Commercial **4%**
- Residential **20%**
- Other **3%**

Target
25%
reduction in emissions intensity by 2030

Emissions intensity

2022 baseline:
29.9 $kgCO_2e/m^2$

2023:
24.9 $kgCO_2e/m^2$

Mortgages comprised over 97% of the Group's lending as at 31 December 2023, within owner occupier and Buy-to-Let residential and semi-commercial and commercial property sub-segments. Lending is our primary area of business activity and where our initial Scope 3 emissions reduction target was established. Over time, the Group will assess the emissions of other portfolios including off-balance sheet activities. Other lending segments contribute under 3% of loan balances.

In 2023, we completed a Scope 3 emissions materiality assessment, the results of which estimate that category 15: Investments, accounts for around 96.7% of the Group's total emissions. We prioritise the most material sources of emissions for calculation and target setting.

In contrast to mortgage lending, other asset classes (development finance and asset finance) are not deemed material, and although emissions were not estimated they are not expected to significantly contribute to the Group's emissions baseline.

Decarbonising UK housing poses a significant and intricate challenge for all lenders. Buildings' direct greenhouse gas (GHG) emissions account for approximately 17% of UK GHG emissions[1], making it the second-largest contributor after transport. Additionally, the UK Green Building Council highlights UK housing as potentially having one of the oldest and least energy-efficient housing stocks in Western Europe[2].

Enhancing energy efficiency and transitioning to lower carbon heating technologies are pivotal to reducing emissions and are expected to yield long-term cost savings for customers. While the Group lacks direct control over how energy is used in homes or when decisions are made to upgrade properties, we are well-positioned to provide practical information to support the decision-making process. We can offer products that support these decisions and play a role in connecting the customer to the retrofit value chain, simplifying the process for those involved. These areas are the focal points of our strategy.

Undoubtedly, the Group along with all lenders, has a role to play, but our ability to drive real change is contingent upon robust government policy, supporting incentives and the influence it has on customer decisions.

The operating environment in 2023 presented challenges such as the cost of living, a high interest rate environment and government reversals on energy efficiency regulations for all mortgage lenders including OSB Group. This resulted in slower progress than anticipated in this area.

We use the Partnership for Carbon Accounting Financials (PCAF) standard to calculate the emissions financed through mortgage lending each year. This approach enables us to track progress toward our interim 2030 target. Progress is monitored by measuring the emission intensity of our lending ($kgCO_2e/m^2$). In addition, our climate risk appetite includes monitoring of triggers and limits based on the EPC profile of new originations on a quarterly basis.

1 Climate Change Committee, The Sixth Carbon Budget – Buildings, 2020, PDF, www.theccc.org.uk
2 BRE Trust, The Housing Stock of the The United Kingdom, PDF, www.bregroup.com

Our ambition and targets continued

Direct operations

Target

Net zero

Scope 1 and 2 by 2030 against a 2022 baseline

2023:

172.83 tCO_2e

2022:

153.87 tCO_2e

Emissions

+12%

Vs 2022

99%

of electricity from renewable energy sources

This ambitious target recognises the Group's direct control over reducing emissions in the buildings under its operational control and our responsibility towards addressing them. Our corporate real estate encompasses offices where business activities are conducted, along with the branch network operating under the Kent Reliance brand. We are confident of achieving this target by 2030, recognising that emissions from direct operations (Scope 1 and 2) contribute minimally to our total measured inventory. Nonetheless, prioritising action in this area aligns with our commitment to early emissions reduction efforts.

The Group has purchased electricity from renewable tariffs since 2021 supported by Renewable Energy Guarantees of Origin. This allows Scope 2 emissions to be neutralised under the market-based methodology. Transitioning to renewable tariffs for new building acquisitions can take time, resulting in a small portion of electricity from non-renewable sources being included in our calculations and disclosures for 2023 (16,958 kWh). Natural gas consumption in our buildings represents the largest contributor to emissions within Scope 1, accounting for 92% of the total. Other sources include gasoil usage in backup generators and fugitive emissions from cooling equipment. Removing gas from our buildings is a key focus of our real estate strategy.

In 2023, action commenced to reduce emissions from our corporate real estate by replacing gas boilers at one of our primary office locations with an electric solution. The full-year impact of this initiative in 2024 is anticipated to reduce gas emissions by approximately 21 tCO_2e from the 2022 baseline, equivalent to around 13% of total Scope 1 emissions. This milestone marks the initial step in our plan to phase out gas as the primary heating source in our buildings. Additionally, redeveloping our new office location in Wolverhampton presents an opportunity to consolidate two older sites into a newer, energy-efficient, low-carbon building.

Balancing emissions reductions with growth objectives and improving the employee workplace experience is essential. As a result, we do not expect to deliver reductions each year. Emissions reductions will be a result of considered action, in line with our corporate real estate strategy aligned to our 2030 target. An example of this can be seen through the Group's acquisition of a freehold office building adjacent to an existing office in Wolverhampton. This resulted in an additional 36 tCO_2e in emissions during 2023, 21% of total Scope 1 and 2 emissions. The building will be refurbished in line with our net zero ambitions, and existing low efficiency buildings exited, resulting in emission reductions over the coming years.

Fugitive emissions, stemming from cooling equipment, are incorporated into the Group's emissions inventory, calculations, and targets. Despite the challenge of eliminating these emissions, we include them due to our ability to measure and control their source. This remains an area of focus for future improvements as technology evolves and infrastructure ages.

Efforts to optimise energy efficiency include exploring options to maximize space usage while minimising energy consumption within a hybrid working environment. The impact of these initiatives is anticipated to be reflected in our 2024 reporting.

Diesel generators are installed at two office locations as part of our business continuity plans for prolonged power outages. Consideration will be given to alternatives over time.

Our supply chains

We are currently developing plans for our supply chains, recognising the significance of both financial and non-financial impacts across sustainability-related topics, including climate change. We anticipate disclosing further details in 2025.

In 2022, our Chief Executive Officer communicated our commitment to addressing climate change and our net zero ambitions to all our suppliers. Suppliers identified as carrying elevated levels of inherent ESG risk received a survey from the Group Vendor Management team, facilitating an assessment of awareness, maturity and action. This survey included enquiries regarding understanding of ESG topics, as well as policies, processes and ambitions.

We have estimated the emissions associated with relevant Scope 3 categories, prioritising upstream sources given our activities as a financial services provider. These estimates adhere to the GHG Protocol Corporate Value Chain Standard methodology and utilise sector-level economic intensity factors to calculate emissions. The most significant emissions arise from categories 1 & 2 – Purchased goods and services, and capital goods, respectively.

Areas of Focus – actions

Direct operations

Target – Net zero Scope 1 and 2 by 2030 against a 2022 baseline.

We are confident in achieving this target given the control the Group has over its office and branch locations. It is currently uncertain how the Group will avoid potential fugitive emissions (F-gas) after 2030, but we expect solutions to become available prior to the target year.

Actions we expect to take to achieve this target, the potential impacts and dependencies are described in the adjacent table. We have included an indicative estimate of the impact the action will have on both emissions and finances. Where quantitative assessment or estimates were required, detail is provided.

Action	Impact (emissions)	Impact (financial)	Ease of implementation / dependencies	2024 Priorities
Removal of gas from our office buildings and branches	**HIGH** c.115 tCO_2e Estimate is based on locations that are intended to remain in the inventory until 2030	**LOW** Additional capital expenditure costs associated with replacing heating systems with low/no carbon alternatives Costs can be factored into annual budget and financial planning cycles	**FULL CONTROL** Timing of action depends on the lifecycle of existing assets, real estate development plans and budget availability	• fit out of new office location in Wolverhampton and replacement of gas heating system with electric solution • removal of gas heating from a Kent Reliance branch • removal of diesel generator from new Wolverhampton office location
Rationalisation of corporate real estate	**HIGH** Corporate real estate plan includes asset disposal and rationalisation	**HIGH** Reduced operating costs from a reduced number of office locations	**FULL CONTROL** Timing of action and extent of impact dependent on pace of business growth and timing in conjunction and reliance on other business projects	• fit out of new office location in Wolverhampton with consolidation of two existing locations • potential rationalisation of existing locations
Replacement of fluorinated gases with lower Global Warming Potential (GWP) alternatives	**HIGH (POTENTIAL)** F-gas emissions: 2023 – 14.34 tCO_2e 2022 – 15.65 tCO_2e (High due to the ad-hoc nature of F-Gas releases)	**UNKNOWN** To be determined. It is anticipated that new cooling technologies will become more widely available towards 2030	**FULL CONTROL** Timing of action will depend on lifecycle of existing assets and availability of solutions	• continued maintenance of existing assets to limit risk of release • fit out new office location in Wolverhampton with modern cooling technology and lower GWP alternatives
Continue to purchase electricity from renewable sources	**HIGH** The Group purchases electricity from REGO backed tariffs and have done so since 2020. In 2023 this action neutralised 397 tCO_2e	**LOW** The Group purchases all electricity from renewable energy tariffs under existing contracts. This is not expected to change	**FULL CONTROL** Exceptions may occur when new buildings are purchased/leased and existing supply is not from renewable sources. In such cases supplies will be migrated to Group contracts at the earliest opportunity Renewable energy tariffs are backed by Renewable Energy Guarantees of Origin (REGO) that allow the Group to account for purchased electricity emissions as zero using market-based methodology. Should this change in the future we would need re-visit our approach to Scope 2 emissions	• continue to purchase electricity from REGO backed tariffs
Increase energy efficiency through colleague engagement and property management	**LOW (POTENTIAL)** An annual increase in efficiency will drive emissions reductions and lower operating costs	**LOW** Potential cost savings from reduced energy consumption Additional costs from implementing energy efficiency measures	**FULL CONTROL** Initiatives can be driven by employee awareness and behavioural change as well as technical measures such as better building controls	• implementation of energy savings measures, following energy modelling exercises • Our Planet – employee network focus on energy efficiency and raising awareness • developing a series of voluntary climate change training modules for employees to access

Areas of Focus – actions continued

The Group use the GHG Protocol to calculate Scope 1 and 2 emissions. For the purposes of target setting and progress reporting, in line with SBTi criteria, the market-based methodology is used to calculate and report Scope 2 emissions.

The Group's use of electricity and gas and Scope 1 and 2 emissions are calculated and reported each month to the ESG Technical Committee as part of the ESG reporting dashboard. This is supported by further management information at the property level that indicates progress or areas for improvement in carbon emissions and utility consumption.

Carbon mitigation – Our approach to carbon offsets

The Group has offset its Scope 1 and Scope 2 emissions (location-based methodology) and a limited number of scope 3 category emissions since 2021. Offsets are carefully selected from projects certified to one or more of the Verified Carbon Standard (VCS), the UN Clean Development Mechanism or Gold Standard. For the financial year 2023, 3500 credits were purchased and retired.

An offsetting strategy is in place that is active alongside our net zero transition strategy. The offsetting strategy is based on The Oxford Principles for Net Zero Aligned Carbon Offsetting and focuses on:

- prioritising emissions reduction over offsetting
- improving emissions measurement over time
- using verifiable offsets
- shifting to removal offsetting over time
- supporting the development of net zero aligned solutions for carbon removal

Implementation of the strategy has begun, with further Scope 3 categories 7 and 8 (Employee commuting and upstream leased assets) offset in 2023 and projects including carbon removals selected.

Offsetting does not contribute to our net zero targets, but we see responsible involvement in the voluntary carbon market as an important step in the transition to a low-carbon economy.

Engaging our colleagues

In 2023 the Group launched a number of employee engagement networks including Our Planet network. This employee led forum is supported by internal subject matter experts and focuses on matters important to colleagues. In 2023, the work of the network supported our climate ambitions in a number of ways. Examples included lunch and learn sessions, where expert speakers shared their knowledge on a range of topics including climate change and energy efficiency, and providing information to colleagues through internal communications engagement activities such as 'Big energy savings week' that included local energy audits, a webinar and articles. The Group's induction programme includes awareness of our climate ambitions and commitments.

Areas of Focus – actions continued

Reducing the emissions from our mortgage lending

Target – 25% reduction in emissions intensity by 2030 from a 2022 baseline

Mortgage lending accounts for over 97% of total lending and over 97% of total measured emissions, forming the most material source of measured emissions for the Group at 317,479.24 tCO_2e in 2023. Our mortgage lending model, which is through intermediaries, brings another layer of complexity to this challenging target.

We do not control customer decisions or their actions in relation to the properties they own. Our strategy seeks to maximise other indirect levers that are available to us.

There are significant dependencies on external factors that mean achieving the target is challenging and beyond the Group's direct control. Through detailed internal research we have identified those influences and dependencies (see page 26) and work is underway to determine their impact against our ambitions. The outcome of this work will further inform our transition plan as it evolves.

The table on page 23 describes the actions the Group is taking or intends to take in pursuit of our targets. Indicative impacts on emissions and finances are given, with work to be completed in 2024 to quantify these.

Actions are expected to have a limited impact on emissions given the lack of control the Group has over customer decisions and investment. To deliver significant impact and drive real-economy decarbonisation, the Group is reliant on supportive government policy, decision making and support mechanisms.

The Group is ready to invest in decarbonisation having established the Landlord Leader Fund. This £50m fund is earmarked to offer lending at subsidised mortgage rates to support existing landlords to upgrade their properties to achieve an Energy Performance Certificate (EPC) rating of C or above.

EPC distribution and movement across the mortgage lending book is analysed on an annual basis as part of scenario analysis, climate reporting and emissions disclosure. This is supplemented by quarterly analysis of new lending against established triggers and limits related to concentrations of lower EPC grades across the mortgage book.

Areas of Focus – actions continued

Action	Impact (emissions)	Impact (financial)	Ease of implementation / dependencies	2024 Priorities
Transition-friendly products and services				
Existing products – providing products and services that contribute to greater energy efficiency and / or decarbonisation	**LOW** Precise Mortgages, refurbishment Buy-to-Let products – Limited uptake of energy efficiency products since launch	**LOW** Some additional costs associated with incentivising rates for energy-efficiency products Limited additional income due to low uptake	**FULL CONTROL**	• See below
New product development – providing products and services that contribute to greater energy efficiency and/or decarbonisation	**ESTIMATED TO BE OF LOW IMPACT** Landlord Leaders research evidenced that only 12% of funding for retrofit is expected to come from net new borrowing for professional landlords Limited uptake of energy efficiency products to date	**LOW** Some additional costs associated with incentivising energy efficiency products Limited additional income due to anticipated low uptake (short term)	**FULL CONTROL**	• Development and launch of a suite of products aligned to the Group's transition priorities
Connecting our customers				
Providing accurate, reliable and actionable information to support retrofit decision-making and action	**EXPECTED TO BE LOW IMPACT** The Group does not control customer actions. Providing decision-useful information could support customers to act earlier than they may have otherwise but cost of retrofit barriers remain and emissions reductions are not guaranteed	**LOW** Some operating costs associated with producing and distributing information or solution implementation, such as licensing or integration costs	**PARTIAL CONTROL** Reliance on availability of solutions that meet requirements Integration challenges with existing systems	• Continuing to explore solutions that provide information that customers will value and trust • Continue to consider data and information requirements in new process design
Improving data – access and quality to support the product strategy and customer journey	**EXPECTED TO BE LOW IMPACT** The Group does not control customer actions. Providing decision useful information at specific points in the customer journey or to customers with specific properties (e.g. EPC D or below) could support customers to act but cost of retrofit barriers remain and emissions reductions are not guaranteed	**LOW** Some costs associated with accessing third-party data or solutions	**FULL CONTROL** Relatively nascent area with immature market. Dependent on third-party data/service providers	• Continue working with third-party provider to develop a practical solution
Connecting customers to the retrofit supply-chain	**LOW** The Group does not control customer actions. Providing connections to suitable supply chain actors at specific points in the customer journey could support customers to act but cost of retrofit barriers remain and emissions reductions are not guaranteed	**LOW** Some costs associated with developing or accessing solutions	**PARTIAL CONTROL** Reliance on availability of solutions that meet requirements Integration challenges with existing systems Reliance on maturity of retrofit supply chain	• Continue working with third-party provider to develop solution

Areas of Focus – actions continued

Action	Impact (emissions)	Impact (financial)	Ease of implementation / dependencies	2024 Priorities
Thought leadership, education and awareness				
Landlord Leaders Community – focused on creating a fairer and more sustainable Private Rented Sector	**LOW** The Group does not control customer actions Providing education and awareness may drive behaviours but emissions reductions are not guaranteed	**MEDIUM** £50m fund announced to support customers	**FULL CONTROL**	• The community defined its mission statement in 2023 and in 2024 will look to make progress under four pillars: – Communication – Education and training – Collaboration – Positive industry perception
Thought leadership – Commissioned research to inform the work of the Landlord Leaders Community	**LOW** The Group does not control customer actions Research specific to the challenges faced by the Private Rented Sector can support product strategy and customer engagement, but this does not guarantee emissions reductions	**LOW** Costs associated with commissioning research	**FULL CONTROL**	• Quarterly meetings are planned for 2024 including refreshed research findings to further inform the focus and work of the community

Definitions:

Impact emissions:
HIGH-The action will deliver significant emissions reductions
LOW-The action delivers little to no benefit towards the emissions target. (Potential is added where the impact cannot be / is yet to be quantified)

Impact financial:
HIGH-The action carries a significant cost or financial benefit to the Group
LOW-The action delivers little to no cost reduction or revenue benefit and can be addressed incrementally through existing financial processes such as budget setting. (Unknown-where a qualitative or quantitative estimate was not conducted)

Level of control:
FULL CONTROL-The action is within the control of the Group to plan and execute
PARTIAL CONTROL-The Group has some control of the action, but it is reliant on others to support or deliver the intended outcomes
NO CONTROL-The Group has no control over the action or is significantly or wholly dependent on others

Engagement and partnerships

The Group participates in a number of forums and working groups with the intention of engaging and influencing UK Government policy.

UK Finance
Our principal forum for engaging and influencing UK government is through UK Finance. A representative from OSB Group sits on the UKF Sustainability working group and we participate in member responses to the Government.

Partnership for Carbon Accounting Financials
In 2022 the Group contributed to a letter to the Government in relation to the challenge of Energy Performance Certificates. We were also an active participant in the Residential Property Working Group during 2023.

We participate in a number of programmes and initiatives with the objective of aligning to emissions calculation methodologies and disclosures, target setting, knowledge sharing and collective progress.

Memberships

Net-Zero Banking Alliance
Industry-led and UN-convened, the Net-Zero Banking Alliance (NZBA) is a group of global banks committed to financing ambitious climate action to transition the real economy to net zero greenhouse gas emissions by 2050. The NZBA is a part of the UN's Race to Zero campaign. The Group joined in February 2022 and in 2023 set and disclosed our first interim emissions reduction target for mortgages.

UN Global Compact
In December 2023 the Group became a signatory to the UN Global Compact. Committing to social and environmental sustainability and a shared responsibility for a better world, the Global Compact is a call to companies to align strategies and operations with universal principles on human rights, labour, environment, and anti-corruption.

Partnerships

Taking the lead – Landlord Leaders
Led by OSB Group, the Landlord Leaders Community launched in 2023 with the intention of understanding the challenges that our brokers, landlords and tenants are experiencing, so we can support them with their own business objectives and outcomes.

The Community seeks to consider the future sustainability of the Private Rented Sector and is comprised of representatives from across the sector, including lenders, brokers, investors, landlords, solution providers, tenant representation groups and trade associations.

Gaining momentum in 2023, the Community set out its mission statement and key areas of focus. Two key areas for the Community that we expect will contribute towards our climate strategy are:

- Establishing comprehensive educational programmes and guides for landlords to increase awareness of their rights, responsibilities, and best practices in the industry, especially around sustainability.
- Collaborating with industry associations, government bodies, and educational institutions to develop and deliver training courses and workshops tailored to the needs of stakeholders.

Improving the energy efficiency of the Private Rented Sector is a big issue, without easy solutions. It's a topic we discussed at the inaugural Landlord Leaders Community event, and how it's a particular problem for older properties in areas with low rents. It's wonderful to see a lender taking corporate social responsibility beyond a tick box page in the Annual Report."

Suzanne Smith, Property investor and blogger, The Independent Landlord

Dependencies

Without direct control over the actions of our customers in relation to retrofit or energy efficiency, it is important we understand the external factors our progress is dependent upon.

UK Finance highlighted to the UK Government that the private sector, especially the financial services sector, will not achieve their own commitments without bold government action and coordination.

Internal research was conducted to identify the external factors that would influence our ability to reduce emissions related to lending and these are described below. In 2024, we will be working to quantify the impact we believe these dependencies will have on progress towards our targets.

Energy grid decarbonisation

The availability of renewable energy in response to the increased demand due to the adoption of electric heating solutions in homes will have a significant impact on emission reductions.

The UK's electricity mix will acquire a significant additional amount of renewable energy input as the UK Government delivers on its commitments to decarbonise the grid by 2035. The Committee on Climate Change (CCC) has identified in the Next Steps for UK Heat Policy, that electrification of heat supported by low-carbon power generation is the most likely prediction for future heating needs.[1]

CCC Progress report 2023 – 'The Government is still lacking a credible overall strategy for delivering its objective of decarbonising the sector by 2035.'[2]

Pace of retrofitting the UK's existing housing stock

The Group understands the challenges to retrofitting such as trade capacity, manufacturing capacity, cost, practicalities and knowledge, and it is clear that government direction and clarity would be beneficial in all of these areas of the retrofit and energy-efficiency supply chains. Effective government action and direction on retrofitting will determine the pace at which industry scales and the UK's existing housing stock can be decarbonised and new net zero ready, energy efficient housing built.

CCC Progress report 2023–'Installation rates of energy efficiency measures continue to be below necessary levels'[2] and rated progress as significantly off track.

Technology – Grid capacity and heat pumps

Technological innovation is a significant factor that will impact the rate of domestic energy source decarbonisation. Improving grid capacity ahead of heat pump uptake will be vital, as electrification of heat will put significant additional pressure on the UK's electricity network. Additionally, affordable heat pump technology designed with the UK's climate and aging housing stock in mind will be important to achieve large scale deployment.

CCC Progress report 2023 – Heat pump installation significantly off track – 'The Government has laid out broad ambitions for the buildings sector, but the details of the policies that will achieve these are largely missing. This information gap creates barriers, making it hard for households and businesses to take key decisions.'[2]

Minimum Energy Efficiency Standards

For customers to take action, appropriate and stable government policy, incentives and subsequent penalties are essential, such as raising the minimum EPC ratings. In 2023 the Government rolled back plans for the tightening of minimum EPC ratings for private rentals. The Prime Minister said 'under current plans, some property owners would've been forced to make expensive upgrades in just two years' time… those plans will be scrapped, and while we will continue to subsidise energy efficiency – we'll never force any household to do it.'

Heat and Buildings Strategy and the Futures Homes Standard

Increasing the energy efficiency standards of new build homes and the commitment of the Government to reaching a market capacity of 600,000 heat pumps installed a year by 2028.

In 2022 69,000 new heat pumps were installed in UK homes, 40,000 of which were retrofits (the remaining being new build homes). The CCC projection was that 130,000 installations were required be on track.[1] The extension of the Boiler Upgrade Scheme in 2023 was welcomed, however it remains that 'ongoing uncertainty about heat is stalling progress'.[1] Upfront costs and a lack of retrofit installers is reported as an inhibiting factor by the CCC, which is consistent with our research.

CCC Progress report 2023 – Heat pump installations – significantly off track.[2]

Education

Increasing consumer awareness of climate change and the need to take action could encourage consumers to choose net zero technologies or to invest in retrofitting at specific trigger points, such as when their current gas boiler is due for replacement. This is reliant on clear, credible and actionable information being easily accessible. Whist lenders have a clear part to play in this throughout the customer lifecycle, consistency is key, with a greater level of success likely if coordinated through central government.

Cost

Payback periods on retrofitting and net zero technologies such as heat pumps often extend over a number of years. This may prevent some landlords and homeowners investing if the return on investment extends beyond their intended term of ownership. There is also a risk of unintended social consequences if costs are passed onto tenants through rents.

CCC Progress report 2023 – 'up-front capital costs needed to decarbonise the UK's building stock remain high, and the Government has not made much progress on answers for the question of 'who pays?''[2]

We will continue to monitor these key areas and review our engagement and implementation plans accordingly.

Should Government policy and progress fall short of net zero commitments, or customer action remain limited, there will be a need for additional policy intervention.

1 Climate Change Committee, 2016 Next steps for UK heat policy, www.theccc.org.uk

2 Climate Change Committee, 2023 Progress Report to Parliament, June 2023, PDF, www.theccc.org.uk