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 the TCFD recommendations, with the exception of the Group's transition plan which will be completed during 2023 (Strategy b). The Group has reviewed the guidance contained in the TCFD Annex and will continue to supplement its future disclosures where appropriate.

The Board and management are committed to ensuring that the Group takes appropriate and timely actions to support the global sustainability agenda.

Throughout 2022, the Group continued to provide thought leadership, raise awareness and educate our borrowers to help them make decisions that would lead to improvements in the energy efficiency of their properties. Progress was also made in delivering a number of initiatives to reduce the Group's own impact on the climate.

The Board is conscious that regulatory expectations and industry best practices continue to evolve and further work is required to fully embed our climate risk operating model across the Group.

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.

A transition plan (Strategy b) is not included below and is a priority development area for 2023 and will align with the timeline of the commitments made to the UN Net Zero Banking Alliance and Science Based Targets Initiative. The Group aims to include it in the 2023 Annual Report and Accounts.

In the table below, we describe the progress made against each TCFD pillar during 2022 and the opportunities planned for 2023.

GOVERNANCE

Achievements in 2022	Opportunities for 2023	Further details
1) Board oversight of climate-related risks and opportunities:		
– All Committee and Board papers provide an environmental impact assessment to allow the Directors to consider any climate-related risk impacts. Climate risk and Environmental, Social and Governance (ESG) matters are key considerations to the Group's strategy for which the Board assumes responsibility. – The ESG Technical Committee was created as a Management Committee reporting to the Group Executive Committee which met quarterly in 2022. The Board delegated the day-to-day management of climate risk to the CEO, who was assisted by the ESG Technical and Group Executive Committees in discharging these responsibilities. – 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 2022, the Board provided oversight over these key processes. – During 2022, the Group Audit Committee continued to monitor the Group's compliance with the TCFD requirements. – A Non-Executive Director of the Board, Sarah Hedger, continued to oversee ESG matters on behalf of the Board. – External climate and wider ESG training was provided to the Board in Q4 2022. – Senior management function responsibilities were updated to include details of functional plans regarding the Group's ESG agenda, and the relevant activities are detailed within Executives' statements of responsibilities. – The Board considers and approves emission reduction goals and targets in line with the Group's net zero commitment 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).	– Deliver further enhancements to the Group's climate-related internal expertise to ensure effective oversight of climate-related risks. – Continue to work with external advisors as appropriate to inform annual budgets, business plans, as well as setting the organisation's performance objectives. – 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 Governance matters on page 90 for further information.

Achievements in 2022	Opportunities for 2023	Further details
2) Management's role in assessing and managing climate-related risks and opportunities:		
– The ESG Technical Committee was established in 2022 with the responsibility to maintain effective identification and management of climate-related risks and goals. The Committee's output is summarised and shared annually with the Board for consideration. – An annual materiality workshop is completed as part of the ESG lifecycle where management consider ESG risks and opportunities. – Climate risk continues to be recognised as an enterprise risk and forms part of the Group's overarching Enterprise Risk Management Framework (ERMF). – The ESG Sustainability Director 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. – In 2022, the Group's Climate Risk Management Framework (CRMF) was implemented as a sub framework of the Group's ERMF, which articulates the Group's climate risk management arrangements, ensuring ongoing delivery of planned goals and continued effective risk management of climate-related risks. – Annual greenhouse gas reduction targets (scope 1 and scope 2) were integrated into the personal objective of the CEO and CFO as well as the Balanced Business Scorecard (BBS). Integrating targets into remuneration is expected to reduce the Group's emissions aligned to the Group's net zero commitment. – An internal review of existing risk management frameworks across principal risk areas was conducted to ensure that climate risk is appropriately embedded and monitored. Formal addition of the climate elements are planned during the next individual framework review cycle. – Following the Science Based Targets Initiative (SBTi) guidance and criteria, 2022 is set to be the established base year for financed emissions (mortgages). Interim (2030) and long-term (2050) net zero targets have been established using intensity ratios under sector decarbonisation pathways.	– Further embed the Group's CRMF. – Further embed climate risk considerations within the Group's other sub risk management frameworks. – Progress towards reducing the Group's direct emissions targets. – Continue the development of the Group's transition plan setting out the actions the Group will take to achieve its targets and how progress will be measured and reported. This plan will be reviewed and considered by the Board for approval in 2023.	None

STRATEGY

Achievements 2022

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 timeframe. 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 Scope 3 business travel emissions 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 anticipated that policy will introduce mechanisms to penalise fossil fuel use in support of the government's net zero ambitions.

Opportunities for 2023

- Expand the Group's scenario analysis to a wider range of transition risks.
- Identify climate-friendly products, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks.
- Fund thought leadership and broker/ borrower education and awareness.
- Consider the Group's climate financial risks within the Group's planning processes.

Further details

See analysis on pages 58 and 59.

1 The Group has defined its time periods as follows: short term: less than one year; medium term: period to 2035; long term: period to 2050.

Achievements in 2022	Opportunities for 2023	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 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. • **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, utilising the full range of the Group's brands, whilst being cognisant of any conduct risks. – Fund 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 in 2022	Opportunities for 2023	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 2022, the Group made progress in managing risks and developing potential areas of opportunity with respect to products and services, the supply/value chain, adaption and mitigation activities and operations, with further initiatives planned in 2023. As a result of the Group's current strategy and simple business model, the climate related risks and opportunities relating to investment in research and development, acquisitions and access to capital are not deemed material for the Group and therefore were not an area of focus in 2022.
– The Board has determined that sustainability is a key priority for the Group, and has committed to the development and implementation of a robust net zero Transition Plan in line with the Paris Agreement's central aim to strengthen the global response to the threat of climate change.
– In 2022, the Group measured its Scope 3 financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology. This is an important step forward which allows subsequent analysis and modelling of actions to address this area of significant risk and opportunity. This ambitious strategy is wholly aligned with the Group's Values, in particular Aim High and Stewardship. 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 2022 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. The impact of climate risk was assessed as part of the ICAAP, which concluded that the associated financial risks were not material for the Group as at 31 December 2022.
– In 2022, the Group included provisions for climate change in its IFRS 9 impairment in the form of a post model adjustment and accounted for discounts on properties with a low energy efficiency rating in the event of a forced sale. The provisions raised were not material in the context of the total provisions held by the Group.
– The Group considered the impact of climate-related risks on its operations in India and established a second site in Hyderabad to ensure that in the event of an operational incident (including a climate-related one) services can be maintained.
	– Enhance the Group's approach to defining the impact of climate-related risks and opportunities beyond current scenario analysis of physical and transitional risks
	– Develop a clear and robust transition plan to achieve the targets set for Scope 1, 2 and 3 emissions to be verified by SBTi which will result in a greater understanding of the effect of climate risk on the Group's financial performance
	– The Group will establish two emissions reduction targets aligned to the SBTi methodology which will be submitted for SBTi validation in 2023:
	  – 1. a target for Scope 3 category 15 financed emissions using a Sector Decarbonisation approach (SDA) under SBTi IEA ETP 2017 B2DS scenario for residential buildings which will include an interim target for 2030 (financed emissions)
	  – 2. a target for operational emissions covering Scope 1 and 2 categories using an absolute contraction approach.
	These targets show the Group's commitment to meeting the Paris Climate Accord.
	– 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.
	– Join sector initiatives to enhance collaborative working to achieve net zero.
	– Formalise and include climate-related inputs into the financial planning process.
		See page 96 for further details on transition planning.
		
		See Environment matters on page 92 for further details.

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 ICAAP saw minimal impact from climate risk, varying severity RCP 2.6 and 8.5 scenarios were considered which assess the impacts across a range of severity scenarios. In 2022, a Climate Biennial Exploratory Scenario was utilised to undertake a Pillar 2B climate risk assessment.	– Expand the number of transitional climate risks considered in future scenario analysis. The results of these may drive changes to strategy which the Group will disclose, if material.	See Risk review on page 58 for further detail on the Group's approach to analysing climate risk.

RISK MANAGEMENT

Achievements in 2022	Opportunities for 2023	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. – 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 an important 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.	– Enhance engagement with stakeholders to determine how customers are being supported in reducing their carbon footprint. – Enhance climate risk management information with ongoing trend and scenario analysis. – Reassess the classification of climate risk based on further regulatory clarity and an ongoing materiality assessment. – 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 58 and the Governance matters, Materiality assessment on page 89 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 were implemented which 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 2022 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.	– Define the Terms of Reference for the ESG Action Group that will oversee progress towards the Group's commitments and responsibilities. – Continue the development of the Group's Transition Plan setting out the actions the Group will take to achieve its targets and how progress will be measured and reported. – Review and update the climate risk glossary annually. – Enhance the prioritisation of climate- related risks to a more quantitative approach across a broader range of risks.	
8) Integrating climate-related risk processes into overall risk management: – Climate risk was integrated into the Group-wide ERMF supported by the implementation of the CRMF, a sub-framework of the ERMF specifically designed to manage and monitor climate-related risk. – The Group incorporated climate risk into its three lines of defence risk management model, with the recognition of climate risk as an enterprise risk. – An ESG learning module was completed by the Group's employees during the year, communicating the importance of ESG, the principles that guide decision making, planning and the Group's commitments.	– Conduct the onboarding review of all new business taking into account transitional and physical climate risks and any regulatory requirements. – Create 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 in order to deliver on the Group's ambitions and commitments.	

METRICS AND TARGETS

Achievements in 2022	Opportunities for 2023	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 Environment Matters 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) /m2 using PCAF methodology - Scope 1 and 2 (location-based and market-based) absolute emissions in tCO_2e by emissions source - Scope 3 business travel in tCO_2e - Scope 1 and Scope 2 tCO_2e as a proportion of full-time equivalent employees (FTE) which is linked to Executive remuneration. - The Group is considering internal carbon pricing during the development of the transition plan.	– Define additional metrics and targets as the Group continues its ESG journey and transition planning. – Define additional Scope 3 emissions sources in line with the GHG Protocol Corporate Standard. – Understand how EPC data forms part of the Group's strategy and its approach to net zero risks and opportunities. – Consider internal carbon pricing as a metric to incentivise progress and track costs and benefits.	See Environmental matters on pages 91-99 for more detail on historic performance and future targets. For portfolio metrics see *Insights from our scenario analysis* on page 107.
10) Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions and the related risks:		
– Scope 1, 2 and 3 emissions have been disclosed (where material 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, 2 tCO_2e per FTE - Scope 3 – financed emissions only – tCO_2e per m2 – Comparative figures were disclosed for 2020 onwards.	– Conduct an assessment of the risks associated with the Group's Scope 1, 2 and 3 emissions in 2023.	See Environmental matters on page 99 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. The Group's ambition is to reduce Scope 1 and 2 emissions (market-based) to zero by 2030. – The Group is working towards creating qualitative and quantitative targets. The principles guiding the targets were presented and approved by the relevant Management Committee. – The emissions year used for science-based target setting will be reset to 2022 as an accurate representation of direct emissions following the pandemic, introduction of a hybrid working model and recategorisation of the carbon footprint inventory. For details on how climate-related risks and opportunities are linked to Executives and senior managers' remuneration, see Remuneration report on page 142.	– Utilise the UN – Finance Initiative "Guidelines for target setting" to develop targets and timeframes for delivery. Target setting is an integral part of transition planning and our approach is expected to mature over time. – Validate and disclose rebased targets. – Continue to include GHG Scope 1 and 2 emissions intensity ratio targets in the Executive and senior managers' bonus schemes. – Use relevant guidance to further enhance metrics and targets e.g. carbon footprint metrics use the GHG protocol, UN NZBA targets setting guidelines. – Develop longer term climate targets to be considered for inclusion with the Group's long-term incentive plans.	See Environmental matters on page 97 for further information.

Insights from our scenario analysis: key drivers

OSB Group 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 and loan to value levels aren't adversely impacted and void periods and defaults don't materialise which result in loan losses and higher capital requirements. As such the Group considers the above risks as the most material and therefore focuses on assessing, monitoring and managing these risks.

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 2022, when compared to 2021. 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 0.03% from the best-case scenario to the worst case scenario, only 0.43% 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 also only 0.04%, with the portfolio risk of subsidence being less than 0.5%.

For coastal erosion, across the Group over 93.6% of the portfolio is more than 1,000 metres from the coastline. Of the properties within 1,000 meters, only 94 are located in areas likely to experience coastal erosion.

Transitional risk

The Group observed marginal improvements in EPC ratings for existing stock assessed in both 2022 and 2021, in addition improvements in the climate data processes improved insight into the transitional risk profile. At a Group level, c. 40% of properties (2021: 35%) have an EPC rating of C or better, c. 45% (2021: 48%) have an EPC rating of D, c. 13% (2021: 15%) an EPC rating of E and c. 2% (2021: negligible) an EPC rating of F or G. Of the properties with an EPC rating of D or worse, c. 91% (2021: 90%) 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 impacts 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 2022, the Group ensured consistency between internal analysis covering the setting of climate risk appetite, ICAAP and other ad hoc analysis with the data, scenarios and assumptions used to support the Group's financial disclosures. As an example, the IFRS 9 post model adjustment (PMA) relating to climate change utilised the same underlying data, scenario and approach to quantifying the financial risk relating to climate change as the climate and ICAAP risk assessments. See the Group's Risk review for more detail on the Group's approach to analysing climate risk and further detail on the Group's climate risk PMA. The Group's current risk appetite, ICAAP and IFRS 9 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.