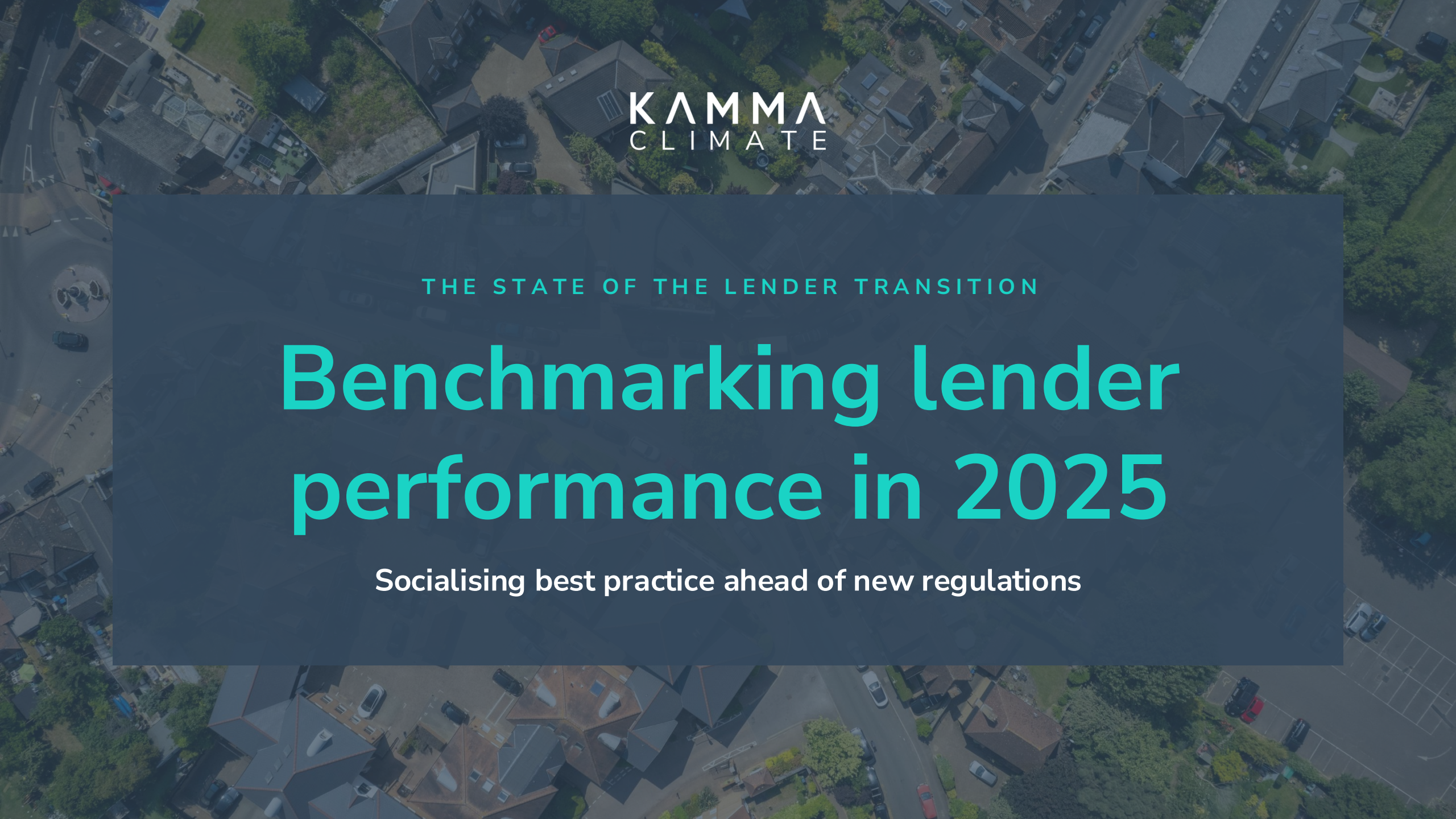




KAMMA
CLIMATE

THE STATE OF THE LENDER TRANSITION

Benchmarking lender performance in 2025

Socialising best practice ahead of new regulations

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Key terms

- IFRS S2 (International Financial Reporting Standard):** Global ISSB standard requiring banks to disclose climate risks, emissions, targets, and transition plans. Builds on a TCFD and makes quantified, decision-useful reporting mandatory.

CP10/25: PRA's proposal raising expectations for banks on climate risk. Requires quantified stress testing, stronger governance, and integration of climate risks into credit and capital planning.
- MEES (Minimum Energy Efficiency Standards):** UK rules on EPC ratings for rented property. Proposed tightening would require all buy-to-let homes to reach EPC C by 2030.

SBTi (Science Based Targets initiative): Global body validating climate targets as 1.5°C-aligned. For lenders, SBTi approval means credible, independently verified financed emissions pathways in mortgage portfolios.

Introduction

New regulations steer climate roadmap

2025 seems to be the year climate transition planning moves from optional to unavoidable.

Regulators and standard-setters have converged: IFRS S2 is soon-to-be live, the PRA's CP10/25 consultation is set to close with compliance just months later, and MEES is rumoured to be confirmed from as early as October 2025. Add the pressure of the SBTi's Net Zero Standard, and the direction of travel is clear - expectations on lenders are rising fast.

Yet UK mortgage lenders are swiftly rising to the challenge. The vast majority now report on climate risk and impact to some extent, with the proportion increasing from 40% in 2024 to 85% in 2025. Data is improving as PCAF scores drop. More lenders than ever before are running Climate Scenario Analysis (CSA) and disclosing financed emissions.

The challenge, perhaps, is that climate transition planning is inconsistent, with some providing detailed analytics using high quality data, and others publishing basic EPC ratings and considering the box to be ticked. So, the objective of this report is a simple one: to benchmark and share best practice across a variety of key areas, such that all lenders can more easily deliver in future reporting.

As we'll discover throughout this report, the challenges the industry is facing are surmountable, and if all lenders performed as well as the best in each category, we'd be well on the way to delivering the decarbonisation that UK real estate so desperately needs to see.

This shift means transition plans can no longer be treated as best-effort exercises. Lenders are expected to produce quantified, 'decision-ready' disclosures, covering the key requirements of governance, strategy, risk, and metrics and targets.

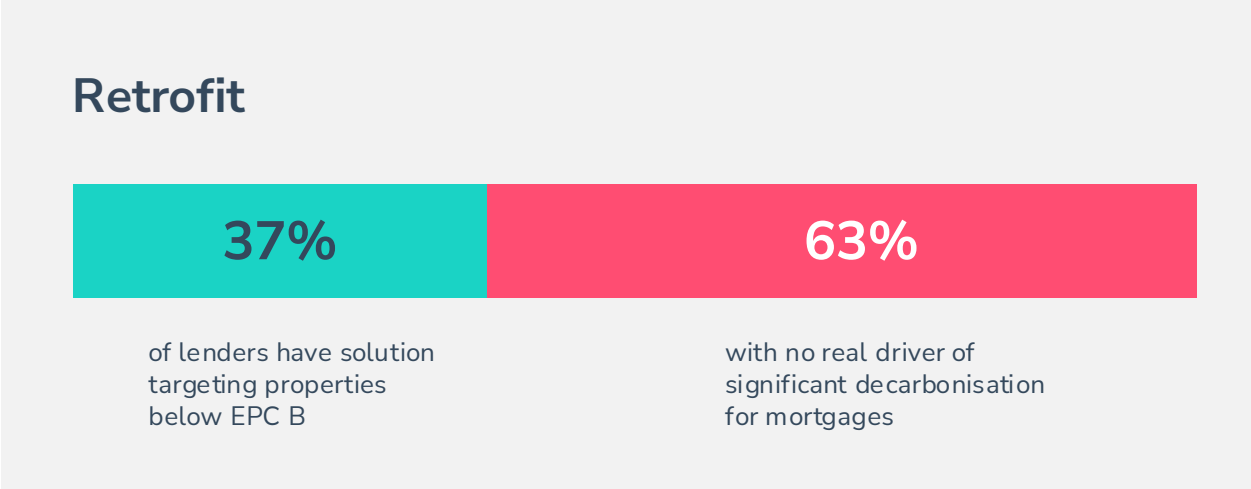
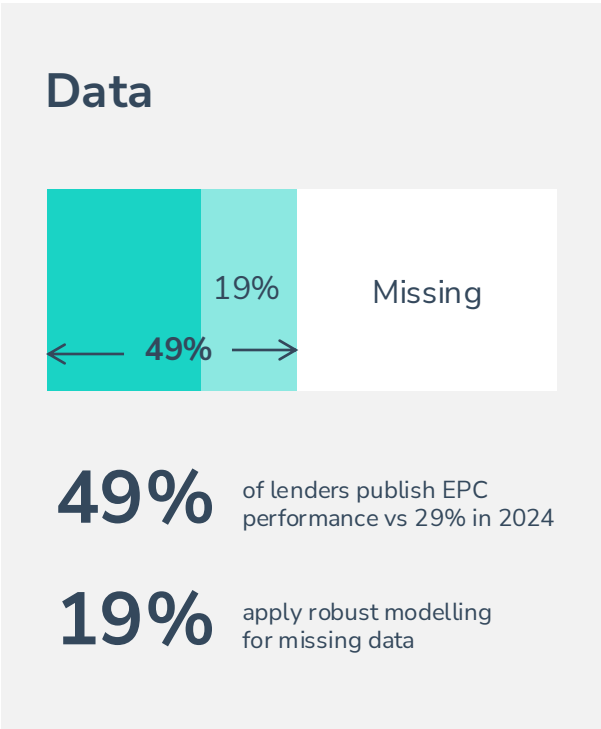
"This government is determined to make the UK the sustainable finance capital of the world...Our plans will transform our leading financial services sector into a global hub for green investment." - **Ed Miliband, Secretary of State for Energy Security and Net Zero**

The industry at a glance

Progress on disclosure but not decarbonisation

Data quality and coverage is up, but there is still substantial room for improvement. Advanced reporting on physical risk also overshadows relatively meagre transition analysis, despite more pressing time horizons for the latter.

The implication is clear: the pace of improvement from 2024 to 2025 needs to be maintained into 2026, with a stronger focus on data quality, rigorous CSA and more accurate emissions disclosures that support year-on-year reporting and interim target setting.



Leaderboard: How top lenders rank vs peers

2025's leaders demonstrate strong data governance, product strategies, and risk and emissions analysis

While high street lenders dominate the highest spots, building societies outperform relative to size, with four in the top 10, including table topping Nationwide. Their mutual models embed retrofit support and member engagement at the core of strategy, often improving their rankings. Specialists and challenger lenders are also climbing the ranks, in part in preparation for

MEES, and an agile approach to data acquisition and the piloting of innovative products.

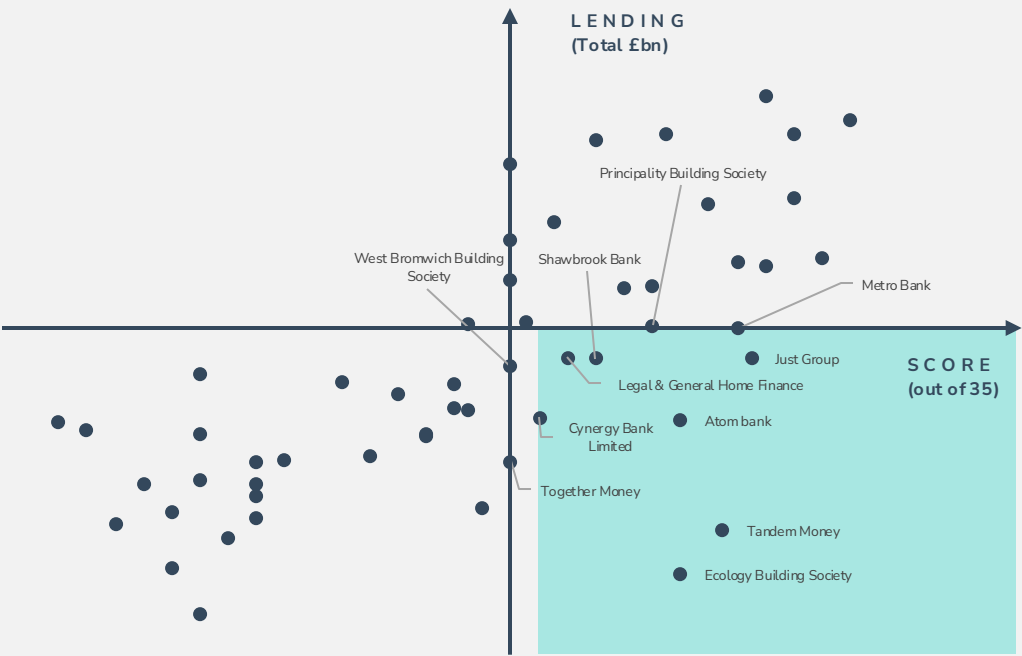
This shows that leadership is no longer confined to the largest incumbents. Both established players and newer challengers are showing that credible action on the climate transition is possible across the market.

Top 10 leaderboard

1	Nationwide BS	6	Just Group
2	OneSavings Bank	7 =	Skipton BS Metro Bank
3	Santander	9	Tandem Money
4 =	Lloyds BG Leeds BS	10	Coventry BS

Matrix with lending balance¹ vs score

Overall performance correlates with size of lending book - and therefore access to resources - but several lenders are outperforming based on size



When it comes to climate-related reporting, the PRA operates under a principle of proportionality. The biggest lenders are expected to deliver to a higher level of detail than others. Special mention then, to those lenders that outperform their size, and deliver exceptional, market-leading transition plans, despite smaller coffers.

Trend 2 (Data)

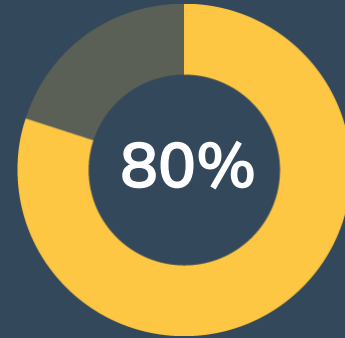
Quality of reporting remains a challenge

Fewer than half of lender disclosures meet IFRS S2 standards, with quantification lagging

Four in five lenders are now reporting on climate - doubling last year's figure. 48% of lenders have also published some form of disclosure, with the most common approach being to subsume climate into annual financial reporting. If fully aligned with disclosure frameworks, including targets and actions, this is effectively a transition plan. Some lenders have published separate, more detailed actions over longer time horizons, with strong examples from [OneSavings Bank](#) and [Coventry Building Society](#).

Financed emissions reporting also improved, with 38% now disclosing compared to just 23% in 2024. On the surface, these numbers suggest strong progress. Data quality, however, remains an issue. The number of published PCAF data quality scores hasn't changed, with four in five lenders still not publishing at all. This gap in reporting obscures the degree that reporting relies on estimates and proxies. Those reporting should be celebrated, with a dozen lenders significantly improving scores over the last year.

Data volume rising, but quality still missing

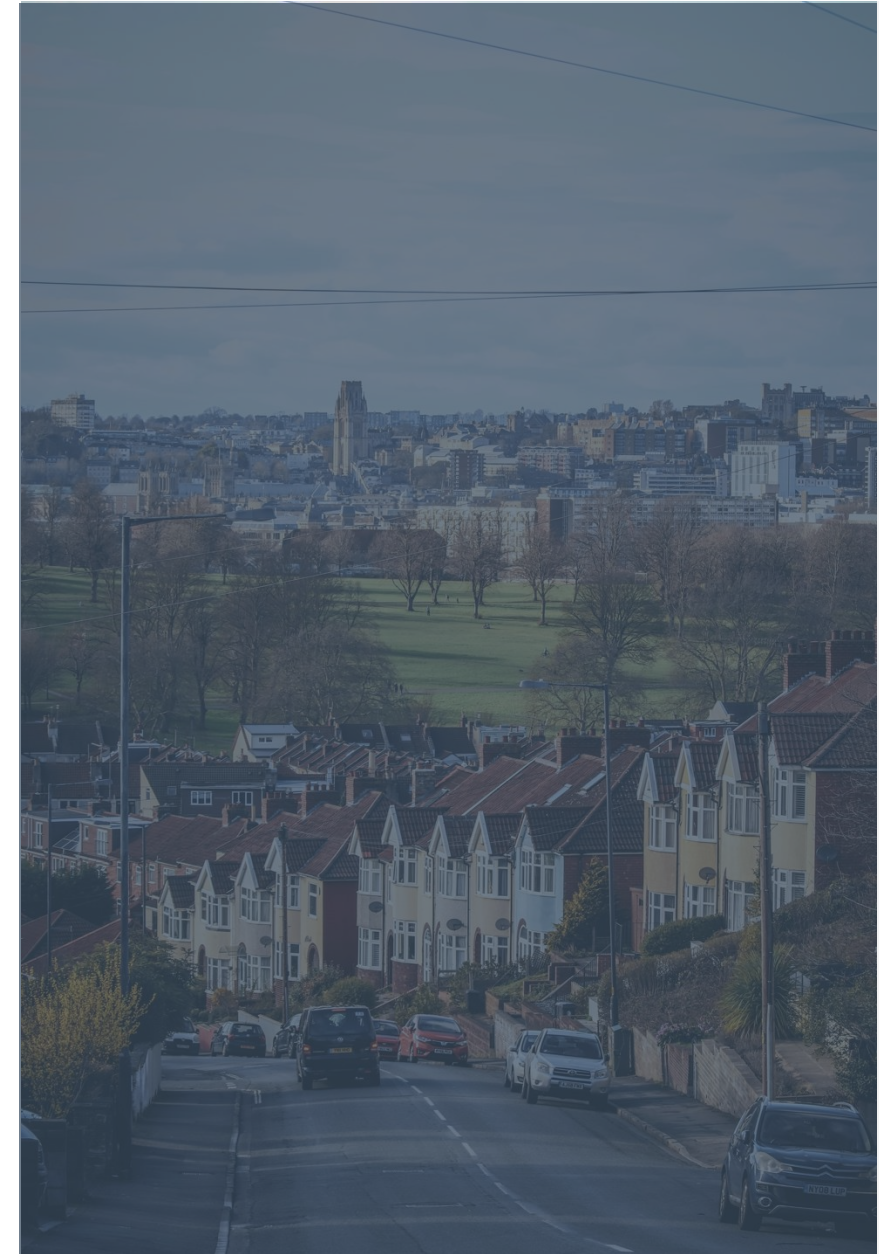


of lenders fail to disclose data quality scores

A key challenge is EPC data. Disclosure of EPC ratings has risen to 49% of lenders, up from 29% in 2024. However, while EPC data is an easy entry point for disclosure, it is riddled with inaccuracies. Coverage is incomplete and ratings often out of date - all of which is based on an outdated methodology. These challenges remain sticky with work on the replacement Home Energy Model having slowed down since the consultation ended in 2024.

For lenders, this means the focus must now shift from volume to quality. It is not enough to simply publish more data. Institutions need to invest in modelling to close EPC coverage gaps, improve accuracy by integrating real-time energy usage data, and report transparently on how data improvements, not decarbonisation, drive results.

Lenders satisfy the demands of regulators and investors by building credibility in disclosures.



Trend 3 (Risk)

Transition risks pose nearer-term credit shocks, yet remain the least modelled

Only 21% of lenders quantify transition shocks vs 34% for physical

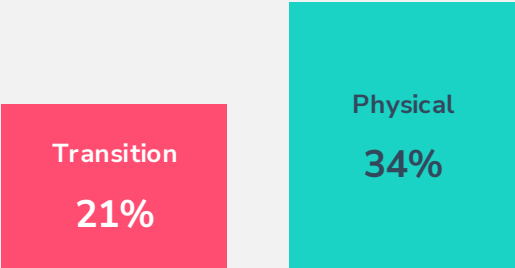
Physical risk analysis outperforms transition on both rigour and coverage. This is a paradox, as transition risks are likely to bite much sooner than many physical risks. The tightening of MEES is a prime example. 58% of PRS homes are rated below EPC C and could become unlettable by 2030 if no upgrades are made, threatening both collateral values and borrower affordability.

58%

of PRS homes rated below EPC C and at risk of becoming unlettable by 2030

Lenders underreporting on transition and physical risks

The lack of rigorous transition stress testing also overlooks how the size of the risk, if properties are to achieve EPC C, is influenced by asset value and LTV impact, which adds detail that can dramatically change the risk profile of a property.



Physical flood risk is not expected to present acute challenges until around 2050. In the meantime, Flood Re has provided stability through its reinsurance scheme. Some lenders are beginning to recognise the potential consequences of an eventual withdrawal of insurance cover, though few attempt to quantify the resulting impact on arrears or provisioning. The [FCA's 2025 Adaptation Report](#) underscores that, once Flood Re ends in 2039 and properties are again subject to open market pricing, many households could face unaffordable premiums. Yet this systemic risk remains largely absent from lenders' CSA.

For lenders, the message is clear. Scenario analysis must evolve quickly from high-level narratives to quantified, decision-useful modelling. Transition risks such as MEES should be prioritised alongside physical risks, and outputs must be embedded into ICAAP and capital planning. Without this, lenders risk being unprepared for the most imminent shocks to their portfolios.

Transition deadlines loom before physical

- 2028 - new lets minimum EPC C in Eng & Wales (proposed)
- 2030 - all lets and social homes minimum EPC C in Eng & Wales (proposed)
- 2033 - all lets minimum EPC C in Scotland
- 2030-35 - commercial properties minimum EPC B (proposed)
- 2039 - FloodRe ends

A simple but effective approach to running CSA for transition risk

	Property A	Property B	Higher risk?
EPC rating	D	D	=
Cost to C	£4,500	£14,500	Property B
Vs. asset value	6% (asset value £75,000)	1.48% (asset value £975,000)	Property A
LTV impact	Negative (loan of £52,500, adding £4,500 goes from 70% LTV to 76% LTV)	NA (loan of £200,000, adding £14,500 goes from 21% to 22%)	Property A

Trend 4 (Emissions)

Financed emissions reporting expands, but genuine decarbonisation still missing

38% of lenders now disclose, yet many reductions reflect data shifts

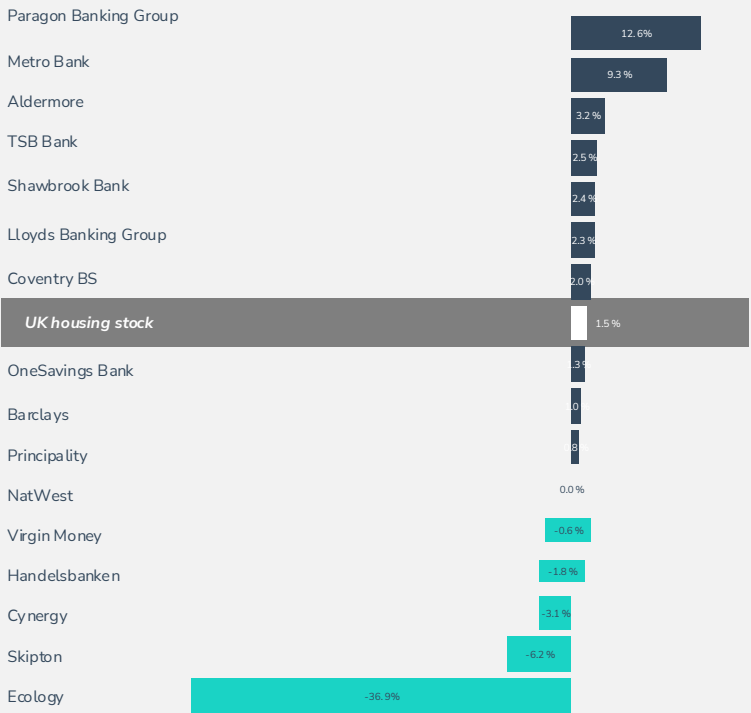
To stay on a balanced pathway to net zero by 2050, lenders must support residential property to decarbonise by 66% by 2040. Yet our analysis shows that few are close to this trajectory, most records show year-on-year decreases under 1%, beneath the UK average of 1.5%.

Financed emissions reporting is expanding - 38% of lenders now publish absolute or intensity - but the quality and credibility of that reporting remains patchy. Some of the largest reported decreases are artefacts of data improvement rather than real decarbonisation. Others with increases are taking on poor performing properties with the intent to decarbonise.

Several lenders have transparently admitted year-on-year changes to revised data inputs, raising the question of how much this goes unreported. Unless lenders re-baseline when methodologies evolve (as required under IFRS S2), comparisons will continue to mislead.

Year-on-year reduction in financed emissions intensity

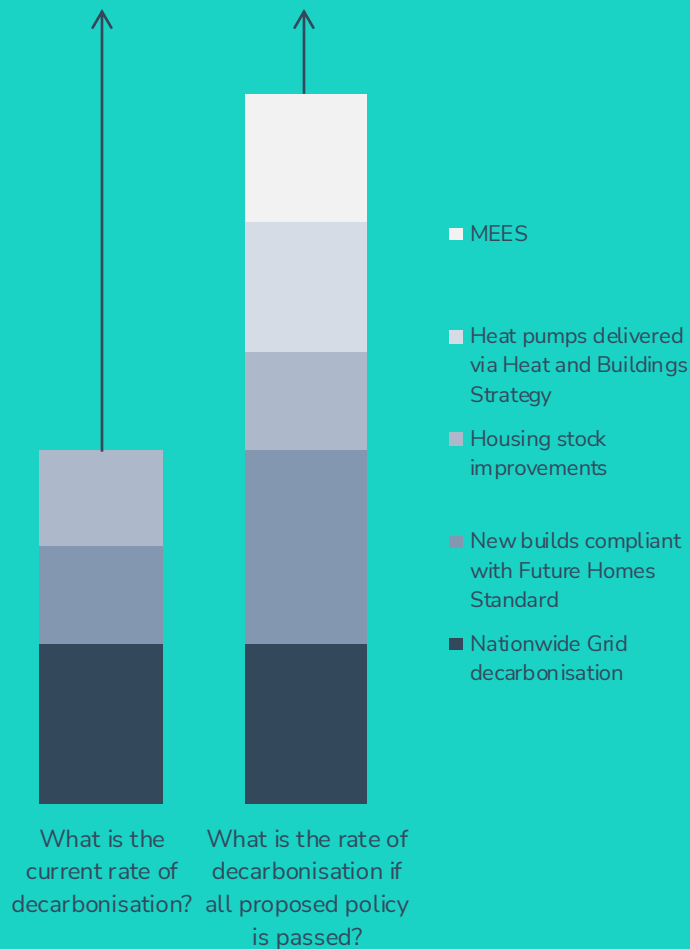
Data shown where comparable year-on-year



Following the example of the above, lenders must be transparent about whether reductions come from structural change or improved measurement. They should re-baseline financed emissions when methodologies shift, adopt more accurate data sources from the outset, and integrate real-time energy data wherever possible. Only then can financed emissions disclosures provide the decision-useful insight demanded by regulators and investors.

Kamma models financed emissions to consider dependencies in target setting

Distance to 2030 interim decarb. targets



Trend 5 (Retrofit)

Retrofit finance grows, but not where it's needed most

Only a third of lenders finance non-EPC A and B properties - leaving below C stock underserved

Retrofit finance is expanding, but the growth is poorly targeted. Only a third of lenders now offer products for non EPC A and B homes, leaving the vast majority of the market without fit-for-purpose solutions.

Uptake also remains weak. While some barriers lie outside lender control, one decisive factor is within: the way retrofit propositions are framed.

Today, most products are packaged as 'maximum retrofits', bundling in costly and often unnecessary measures such as floor insulation or solar water heating. Only a small minority of households can afford them, and most do not need them. The CCC's [Seventh Carbon Budget](#) is clear: the UK does not require every home to undergo deep retrofit. High-ROI measures - loft insulation, efficient heating systems, and basic fabric upgrades - are sufficient to keep the housing stock on track for 2030 EPC targets.

Drive retrofit uptake with a strong business case: compound cost savings

Proposition	Cost	Fuel savings	Payback	ROI	% interested
Solid wall insulation	£6,095	£338	18 years	122%	32%
Cavity wall insulation	£1,695	£158	11 years	272%	53%
Cavity wall insulation + further advance	£407 per annum	£158	13 years	152%	81%

Lenders can unlock demand by reframing retrofit finance around affordability and returns. The business case is compelling when presented correctly: the combined benefit of lower front-up cost and energy bills alongside reduced mortgage costs over 25 years, offset against the cost of a five-year loan. Yet no lender has yet communicated retrofit in these terms. An optimised, ROI-led package should be front and centre on customer journeys, not hidden away in 'climate hubs' that few ever find.

Only a third of lenders target finance at EPC C- and-below homes – where both the need and return on decarbonisation is greatest

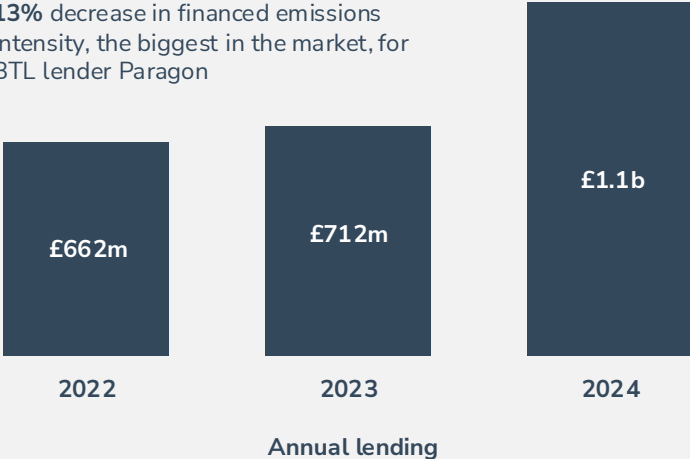
Timing also matters. While regulation should set the floor, lenders don't need to wait passively. With MEES expected to tighten, lenders should begin asking landlords now how they plan to prepare. Better still, they can send them a plan of how to do it best. Framing retrofit finance as a way to get ahead of MEES will help normalise investment before deadlines bite. Large portfolio landlords and housing providers represent the most immediate opportunity: a single decision-maker can unlock thousands of upgrades, provided they are supported with data-driven optimisation. Done right, retrofit finance shifts from a niche product into a mainstream growth driver - aligning customer demand, decarbonisation goals, and lender strategy.

Will MEES support BTL decarbonisation?

Additional drawdown to support BTL improvements is growing

54% increase in BTL improvement lending, 2023-2024

13% decrease in financed emissions intensity, the biggest in the market, for BTL lender Paragon



Trend 6 (Cooperation)

Leadership spans the market, but collaboration remains rare

High street banks carry the heaviest burden, but smaller players often outperform relative to size

This year's analysis shows that climate transition leadership is spread across the market. The largest banks face the toughest challenge: embedding climate risk management across vast portfolios while proving that both disclosure and real decarbonisation are credible at scale. Building societies, with their member-driven models, consistently punch above their weight, particularly on retrofit finance and customer engagement. Specialists and challengers bring agility, testing new products and disclosures that push the market forward. Each group demonstrates that progress is possible, regardless of size or balance sheet.

Yet this remains a fragmented effort. Too many lenders continue to operate in silos, refining parallel methodologies rather than building on shared learning. This slows collective progress in what is ultimately a systemic challenge. Collaboration is in every lender's best interest: more will be gained from a smoother market-wide transition than could ever be lost by 'giving away' best practice.

The tools to accelerate progress already exist, and they are not prohibitively expensive. Lenders can model portfolio emissions reductions, run CSA, or build retrofit strategies without breaking the bank. What matters most is intent, not resources.

This report's purpose is not to single out poor performance or over-celebrate isolated leaders; decarbonisation of the housing market is still off track for net zero. The goal is to surface and socialise best practice, so that solutions spread quicker and wider.

Tools every lender can adopt - examples

Data

Leeds Building Society

- Deployed metered data to remove EPC bias
- Now able to accurately track year-on-year

Climate Scenario Analysis

Nationwide Building Society

- Modelled scenarios across physical and transition risk
- Modelled financed emissions with dependencies

Target setting

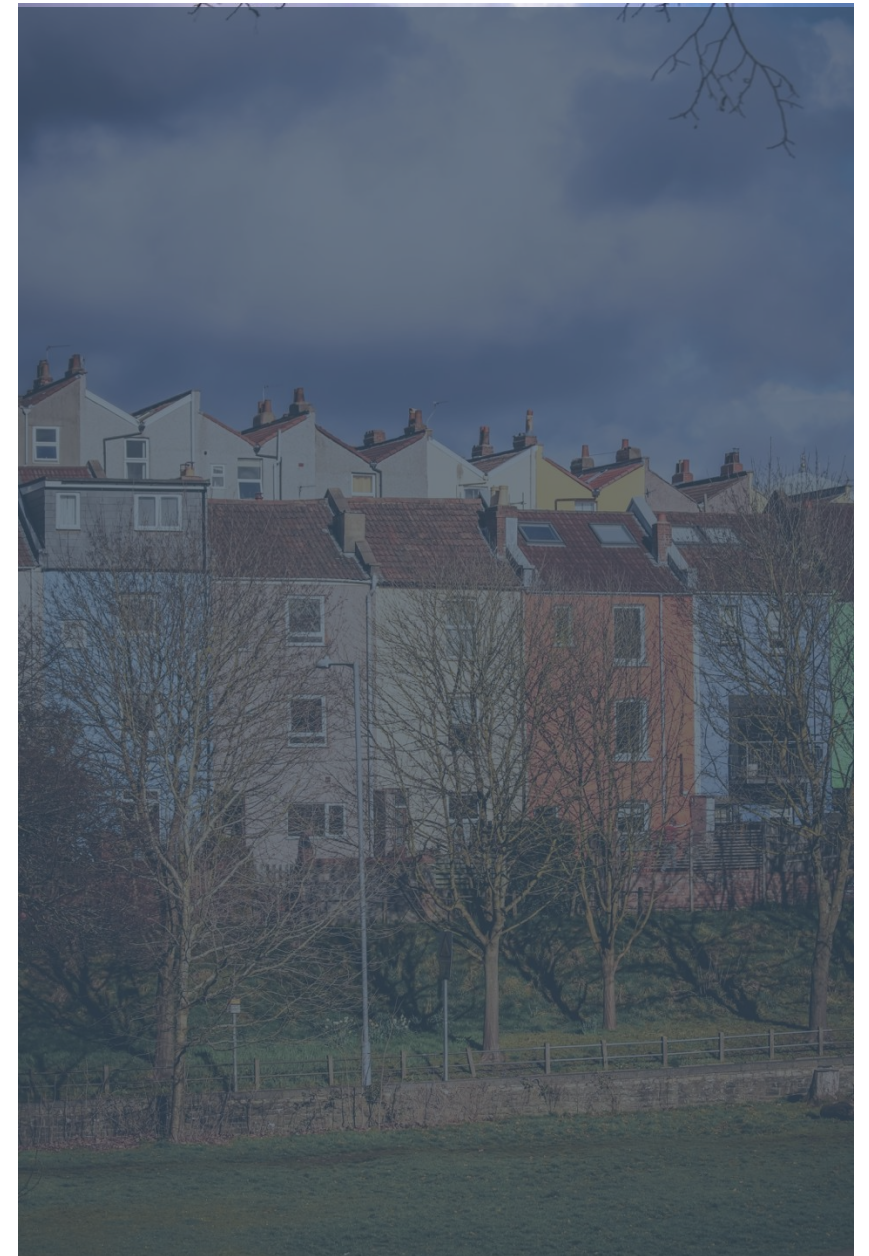
Just Group

- Modelled policy scenarios
- Compared with targets
- Identified gaps and developing tactics to close

Decarb.

Paragon Banking Group

- Increased home improvement lending by 54%
- Delivered a 12.6% reduction in financed emissions intensity



What the new rules mean for lenders

From disclosure rules to EPC deadlines, the big shifts shaping lender priorities

Climate regulation is converging fast. IFRS S2 now sets the disclosure baseline, CP10/25 will hardwire climate into risk management by 2026, MEES is pushing rental stock toward EPC C, and SBTi is raising the bar on credible targets.

Together, they leave lenders with little time to move from high-level commitments to practical delivery.

Focus area	IFRS S2 (what to disclose)	CP10/25 (what to embed)	Direction of travel: timelines & compliance	Priorities (do next)
Governance & Oversight	Disclose board oversight, management roles, and how climate is integrated into strategy and remuneration; connect to metrics/targets and scenario-resilient strategy. (ISSB/TCFD pillars).	Board sets climate risk appetite; clear SMF ownership; regular board reporting/training so climate analysis can be challenged; ensure coherence between strategy and any public climate targets.	PRA will issue final SS late-2025; supervisors begin testing ~H1 2026. UK disclosure rules shifting from TCFD to UK-SRS (ISSB S2).	Formalise risk appetite; assign SMF; schedule board teach-ins; map where public targets (incl. SBTi , if adopted) intersect with strategy and controls.
Data & Disclosure	Disclose metrics/targets incl. Scope 1–3; for lenders, financed emissions and sector exposures; explain methods and data quality; disclose strategy's resilience to scenarios.	Build adequate, controlled data architecture (EPCs, location, flood); strengthen data quality controls for financial reporting linkage.	UK to move listed issuers to UK-SRS (IFRS S2) 2025–26; PRA emphasises “reasonable and supportable” data.	Start portfolio-wide EPC and location tagging; publish PCAF quality grades; prepare to migrate TCFD → S2 templates. (SBTi also pushes better emissions and non-emissions data coverage.)
Risk Management	Explain processes for identifying, assessing, and managing climate risks; link to strategy and metrics. (S2 risk pillar).	Integrate climate into credit/market/liquidity/operational risk; climate-specific metrics/limits; consider concentration risk; reflect in funding/liquidity and credit lifecycle.	Supervisory expectation, proportionate to risk; variability remains high today - PRA wants faster embedding.	Add EPC/LTV/flood flags to underwriting and monitoring; define climate risk limits; include MEES non-compliance as a credit trigger, especially for BTL.
Scenario Analysis & Stress Testing	Disclose resilience under different climate scenarios; outline key assumptions.	Run CSA routinely; include reverse stress tests ; calibrate and tailor scenarios; understand vendor tool limits; embed into ICAAP/ORSA and decision-making.	PRA will test use-in-business; proportionality applies but absence of CSA requires an alternative future-risk approach.	Build a MEES 2030 “transition shock” path (EPC-C) and a flood/insurance withdrawal path; quantify impacts on arrears, values, capital; feed outputs to pricing and limits.
Emissions Measurement & Reporting	Disclose financed emissions (Scope 3 Cat.15) and progress vs targets; explain methodologies. (S2 metrics/targets pillar).	Strengthen controls for climate data used in financial reporting; supervisors expect transparency that supports market discipline.	SBTi FINZ standard requires near-term + long-term targets and better data coverage; transition period to end-2026; new targets under FINZ from 2027.	Stand up annual PCAF inventory; disclose data-quality scores; set internal reduction glidepaths (7.5% p.a. to 2035 if pursuing 1.5°C; ~4% p.a. nearer 2°C); publish re-baselining rules when methods change.
Targets & Transition Planning	Disclose targets and how they're integrated with strategy; track performance year-on-year; scenario-consistent pathways.	Ensure internal coherence between firm strategy and any public climate targets; board oversight of delivery and controls.	SBTi : fossil expansion finance phase-out (immediately for coal; oil & gas projects now; general O&G finance by 2030 latest); buildings policy favours zero-carbon-ready new builds and increased retrofit finance .	If you have public targets, align them to SBTi FINZ where feasible; set sector pathways for mortgages (EPC distribution targets) and report progress in S2; link exec pay to milestones.
Customer & Market Actions	Explain how strategy and metrics translate into products and client engagement that reduce risk and support resilience.	Translate risk findings into policy/credit change and client actions (e.g., retrofit support for BTL; pricing for risk); proportionate to exposure.	MEES : rentals below EPC E already restricted; policy direction is EPC C by 2030 → non-compliance risks income/valuations; lenders with BTL exposure must respond early.	Stand up EPC C pathways for landlords; pre-emptive outreach to at-risk BTL; offer ROI-optimised retrofit finance; embed MEES status into origination, covenants and reviews.

Clear next steps for lenders

Turning disclosure into delivery requires focus on a few critical priorities. Based on the 2025 findings, every lender should ensure they can:

Governance and oversight

- ✓ Put climate transition on the board agenda with regular reporting to risk committees.
- ✓ Assign SMF-level accountability for climate risk and link executive pay to climate KPIs.
- ✓ Ensure public targets (including SBTi commitments, if adopted) align with strategy and risk appetite.

Data and disclosure

- ✓ Align disclosures with IFRS S2: governance, strategy, risk, metrics and targets.
- ✓ Publish data-quality scores (e.g. PCAF) to build credibility and avoid overstating progress.
- ✓ Prepare to migrate existing TCFD-style reporting into the UK's S2-based framework 2026 and beyond.

Risk management

- ✓ Integrate EPC ratings, MEES and flood risk exposure into credit policy and monitoring.
- ✓ Define climate-specific risk metrics and appetite thresholds.
- ✓ Build climate considerations into loan origination and ongoing portfolio reviews.

Scenario analysis and stress testing

- ✓ Run quantified scenarios for transition shocks (e.g. EPC C by 2030 under MEES) and physical shocks (e.g. withdrawal of Flood Re cover).
- ✓ Calibrate scenarios to portfolio vulnerabilities and feed results into ICAAP and capital planning.
- ✓ Start with proportionate approaches if smaller, but ensure a forward-looking process exists.

Emissions measurement and reporting

- ✓ Stand up annual financed emissions inventories, covering Scope 3 Cat. 15.
- ✓ Improve data coverage each year, reducing reliance on proxies.
- ✓ Re-baseline emissions when methodologies change and disclose rules clearly.

Targets and transition planning

- ✓ Measure the cost of bringing mortgage portfolios to EPC C, including BTL and owner-occupied.
- ✓ Set interim financed emissions reduction targets consistent with science-based pathways.
- ✓ Publish transition pathways and track delivery against milestones.

Customer and market

- ✓ Scale retrofit finance for EPC D and below, linked to MEES triggers and landlord engagement.
- ✓ Reframe retrofit products around ROI and affordability, not "maximum retrofit" packages.
- ✓ Educate customers with cost-optimised retrofit guidance and embed EPC requirements into origination and servicing.

Scorecard and one-to-one consultation

The findings of this report highlight that while reporting has accelerated, delivery remains uneven. Institutions need clarity on where they stand today and what to prioritise next. A personalised scorecard provides that view.

Kamma highlights strengths, identifies gaps, and sets out tailored actions to close them ahead of upcoming regulatory deadlines. More than compliance, it helps ensure portfolios remain resilient, customers supported, and opportunities in retrofit and green lending are captured.

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Methodology and updates

The 2025 methodology builds on the [framework used in 2024](#) but introduces several important refinements. Stakeholders no longer accept vague commitments. They demand quantification, credibility, and year-on-year evidence of progress.

The revised methodology therefore recalibrates against the developing regulatory agenda while ensuring that lenders demonstrating measurable impact score higher:

Section 1: Plan - governance and disclosure

- a. Governance: We now explicitly score governance. Strong practice means naming who is responsible at Board and Senior Management Function (SMF) level, with clear escalation pathways. The best lenders link executive pay to climate targets.
 - b. Reporting (narrative vs quantified): Disclosures are differentiated by whether they are purely descriptive or whether they quantify impacts. IFRS S2 requires lenders to move beyond narrative and provide quantified information on risks, opportunities, and financial effects.
 - c. Alignment with standards: Lenders are scored for aligning to recognised frameworks such as the Transition Plan Taskforce (TPT) or IFRS S2.
-

Section 2: Measure - data and risk assessment

- a. Financed emissions: Lenders should disclose both absolute and intensity emissions for their mortgage portfolio using PCAF methodology.
- b. Data quality & assurance: More weight is now given to lenders who publish their PCAF data quality score, set out clear improvement plans, and subject emissions data to independent assurance.
- c. Transition risk: Assessed separately from physical risk. We look for disclosure of risks from regulatory change (e.g. MEES) and whether lenders quantify the potential effects on arrears, property values, and capital.
- d. Physical risk: Lenders should assess and disclose exposure to floods, overheating, and insurance withdrawal. The best lenders integrate this into scenario analysis and credit risk models.

Section 3: Targets - pathways and alignment

- a. Absolute and intensity targets: Both should be disclosed, with interim milestones (e.g. 2030) to track progress, not just distant net-zero ambitions. Lenders without interim targets are not awards points.
 - b. SBTi alignment: Targets validated or aligned with the SBTi Financial Institutions Net Zero Standard (FINZ) are recognised as best practice.
 - c. Scenario dependencies: Lenders should monitor, quantify and set targets against external factors, such as government retrofit subsidies or grid decarbonisation.
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Section 4: Actions - supporting retrofit and customers

- a. Retrofit education: Refined in 2025 to distinguish between basic education (e.g. EPC awareness) and best-practice education that follows the CCC's cost-optimised pathways, showing the cheapest and most effective retrofit measures.
 - b. Retrofit financing: Cashback, discounted rates, or additional borrowing for EPC upgrades, excluding products targeting only EPC A and B properties.
 - c. Other actions: Broader initiatives like carbon credits, renewable investments or partnerships are recognised.
-

Section 5: Progress – demonstrated delivery and decarbonisation

- a. Emissions reductions: We look for year-on-year reductions, with 7.5% per year as the benchmark consistent with a 1.5°C pathway, with intensity metrics preferred.
- b. Data quality improvements: Recognition is given for improvements in approach to data quality and coverage.
- c. Risk management progress: Evidence of evolution in approach to how climate risk is influencing business decisions, such as credit policy, risk limits, pricing, or ICAAP.
- d. Other progress: Lenders may also be recognised for additional progress in embedding climate considerations across strategy or operations.