Financed Emissions Target Setting

Basis of Preparation

March 2026
Version 2

BACKGROUND

Climate change and its impacts remain the most pressing challenge facing our planet.

OSB Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the mortgage market such as Buy to Let, Residential (including Help to Buy and shared ownership), complex commercial and semi-commercial, development finance, bridging and asset finance. We do not lend to, or invest in the fossil fuel industry.

Stewardship is a core value of the Group which means that we act with conscience and take social, environmental and ethical factors into consideration at all times.

Our environmental ambitions and in particular our response to climate change is well aligned to our purpose of helping our customers, colleagues and communities prosper. Acting with conscience means that we are committed to doing the right thing by our stakeholders which includes the environment.

In 2022, OSB Group (the Group) pledged to tackle operational emissions from our offices and branch buildings and the more challenging emissions associated with the properties we lend on - our financed emissions.

Furthermore we stated our ambition to achieve net-zero emissions across wider business activities by 2050 in line with the ambitions of the Climate Paris Accord of limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

Though much detail remains still to be defined in the UK government's pledge to cut greenhouse gas emissions, we believe it's critical to make such pledges and to take a committed stance. It is through such pledges and commitments supported by emerging regulation, that organisations such as ours will determine roadmaps towards achieving these ambitious targets.

Recognising that for any business to achieve net zero it will need the collaborative support from key stakeholders across industry and beyond, including policy makers, the Group joined the United Nations Net Zero Banking Alliance (NZBA). Through this membership the Group joined other financial services organisations in committing to transition the operational and attributable Greenhouse Gas (GHG) emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner and setting 2030 targets (or sooner) and a 2050 target.

Since OSB Group set its first intermediate financed emission target, NZBA has disbanded as a membership organisation. The Group continue to use its target setting guidance as a measure of robustness and credibility in emissions target setting.

At the core of this commitment is the acceptance of climate science demonstrating that in order to limit warming to 1.5°C with no or limited overshoot, "rapid, deep and, in most cases, immediate greenhouse gas emissions reductions in all sectors this decade"[1] are required. Compounding this challenge, the IPCC acknowledges that each year of insufficient global action further reduces the flexibility of mitigation pathways, making it progressively harder to achieve 1.5°C outcomes without significant overshoot.

This document presents our first interim net zero target for financed emissions and details the basis upon which it has been prepared. In setting targets we have used the NZBA Guidelines for Target Setting for Banks and the SBTi Financial Sector Science Based Targets Guidance.

This document is in its second version following a restatement of baseline emissions. We have and will continue to revisit our targets and the scenarios upon which they are based with some regularity in line with developments in climate science, government, policy, technology and innovation.

We will also consider setting additional targets to cover other areas of the Group's total value chain in due time.

The Group has published its first Climate Transition Plan, outlining our broader climate ambitions and targets, the actions we are taking now and those we plan to undertake, and the way we are embedding transition planning and climate aligned thinking throughout our business model.

UK BUILDINGS AND NET ZERO

In September 2022, the UK Government commissioned an independent review of its pathway to net zero, aiming to determine how the country could meet its legally binding 2050 target in an affordable and efficient way. The review concluded that "the UK should be proud of the steps it has taken so far to achieve net zero," but also emphasised that "government, industry, and individuals need to act to make the most of the opportunities, reduce costs, and ensure we deliver successfully." Recent IPCC assessments reinforce this call to action, warning that global warming is on track to reach 1.5°C in the early 2030s without rapid emissions reductions, with many climate impacts already unprecedented and some irreversible. Against this backdrop, several of the Skidmore Review's recommendations remain crucial for enabling the Group to meet its own climate ambitions and long term targets.

The financial services sector provides funding for assets that produce varying levels of greenhouse gas emissions. Although the Group's mortgage lending is via intermediaries, we accept that we have a role to play in supporting intermediaries and customers towards the UK's net-zero ambition, as the UK housing market currently contributes around 17% of all the carbon dioxide emissions in the UK.[2] However, as a mortgage lender without direct control over the buildings, there are material dependencies on external actors and their control and influence.

There remains significant uncertainty over the Government's long term policies relating to the UK's housing stock. In its Powering Up Britain report (2023), the Government stated its commitment to improving energy efficiency across buildings and indicated that it would consult on raising standards for owner occupied and privately rented homes. Since then, several key updates have been published, most notably the Government's Improving the Energy Performance of Privately Rented Homes: 2025 update. This response confirms that the consultation has concluded, summarises stakeholder views, and sets out definitive policy decisions for the Private Rented Sector (PRS).[3]

The Government has now abandoned the earlier phased milestones of 2028 and 2030 for PRS homes. Instead, it has introduced a single compliance deadline of 1 October 2030, by which all private rented homes in England and Wales must meet EPC Band C or equivalent under a new dual-metric assessment model. This represents a significant policy shift from previously proposed staged implementation dates and indicates that 2028 is no longer the expected first milestone.

The 2030 requirement is supported by the forthcoming updated EPC framework and the Home Energy Model (HEM), which will change how EPCs are calculated from 2027.

The updated policy package also includes raising the cost cap for landlords to £10,000, extending exemptions, and setting out plans to introduce necessary regulatory powers via primary legislation, ahead of a statutory instrument expected to come into force in 2027. This marks a substantially revised regulatory pathway compared with the expectations set in 2020 and 2023.

While these delays may allow more time for landlords and homeowners to prepare, they also risk slowing down investment decisions and reducing near term retrofit activity. This in turn may delay the rate of decarbonisation that the Group can achieve. The Government emphasises that raising PRS standards, in combination with the Warm Homes Plan, is expected to support the delivery of up to 5 million home upgrades by 2030, but the shift to a later single milestone inevitably alters the pace of progress.

FINANCED EMISSIONS

The Group are committed to aligning our financing to the goals and timelines of the Paris Climate Accord, limiting the increase in global temperatures to 1.5°C and achieving net zero by 2050.

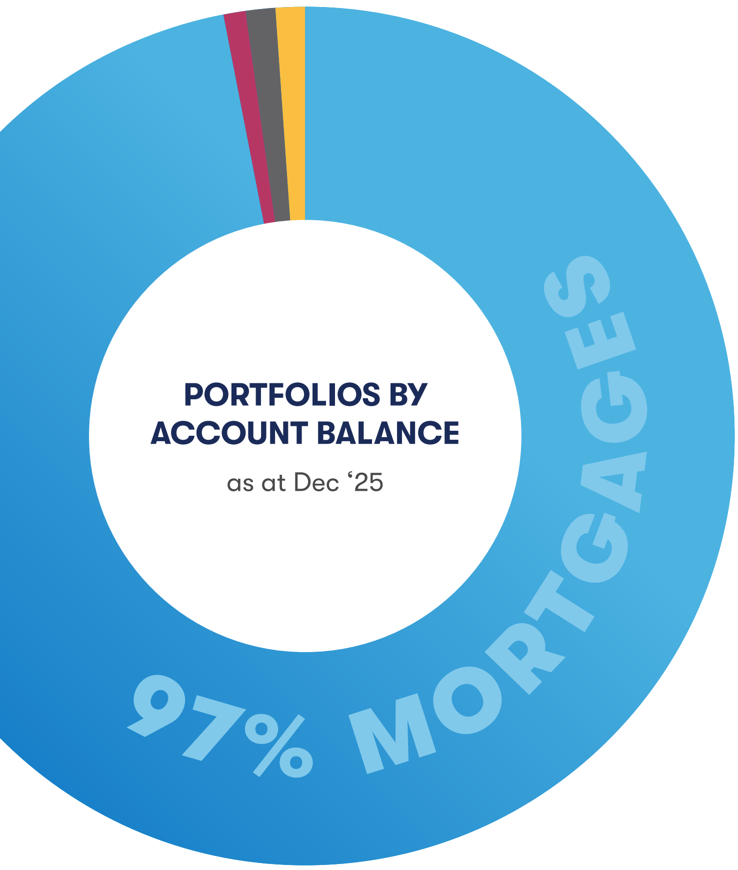
We have estimated and disclosed the financed emissions (scope 3 category 15) from our mortgage lending since 2021 using the Partnership for Carbon Accounting Financials (PCAF) Methodology.[5] Using this methodology allows for a standard, transparent and comparable method of calculating and disclosing emissions estimates across the sector.

[1] https://lordslibrary.parliament.uk/mission-zero-independent-review-of-net-zero/#heading-2

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147372/2022_Provisional_emissions_statistics_report.pdf

[3] Improving the energy performance of privately rented homes: 2025 update - GOV.UK

[4] EPC C by 2030: New MEES Rules for Landlords | HEM Guide



SECTOR BOUNDARIES

Over 97% of the Group's lending in 2025[6] was in the form of mortgages, within owner occupier and buy-to-let residential and semi-commercial and commercial property. As a sub-sector specialist lender, this is our primary area of financing activity. With mortgages making up the majority of the Group's lending, this is where our initial target has been established.

Over time the Group will assess the emissions of other portfolios, namely asset lending, bridging and funding lines. These segments contribute the remaining 3% of account balances.[7] These segments in comparison to mortgage lending are not considered material, and whilst emissions estimates have not been carried out, it would not be expected that they contribute materially to the Group's emissions baseline.

- Mortgages
- Asset Finance
- Bridging
- Funding lines

EMISSIONS SCOPE

We use the GHG Protocol[8] to define emissions sources within Scope 1, 2 & 3. Within Scope 3 – our indirect emissions - we prioritise the most material sources of emissions for calculation and target setting. We consider the materiality of those emissions to our business, the availability of a credible framework for measurement and reporting, data availability and integrity, and the level of control or influence we have over those when prioritising. We expect that in line with the GHG protocol our emissions calculations in Scope 3 will become increasingly accurate over time.

In 2025 we conducted our annual Scope 3 emissions materiality assessment, the results of which estimate that category 15 – investments, accounts for around 91% of the Group's total emissions.

We report metrics and targets in CO_2e (carbon dioxide equivalent). This is in line with the Net Zero Banking alliance guidance. We report Scope 1 and Scope 2 emissions related to the regulated energy use (space and water heating, lighting and ventilation) of a property financed through the mortgage, and the emissions attributed to the Group are calculated using PCAF methodology.

The Group does not lend into other carbon intensive sectors as defined by NZBA guidance which include agriculture, aluminium, cement, coal, iron and steel, oil and gas, power generation, or transport.

[5] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

[6] As at Dec 2025

[7] As at Dec 2025

[8] https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf

TARGET METRICS

For mortgage lending we use the physical intensity metric of $kgCO_2e/m^2$ for target setting and ongoing monitoring. This is consistent with PCAF and NZBA Guidance, that financial institutions should consider reporting physical emission intensities using sector-specific activity where relevant to business goals.

A physical intensity metric is considered appropriate to mortgage lending as the energy efficiency of a property is material to its energy consumption, with per m^2 providing a normalised metric against which a comparison between properties can be made.

CLIMATE SCENARIO SELECTION

Our target has been developed with reference to a 1.5°C aligned scenario. For our initial target for mortgages, we have used the UK's Climate Change Committee Balanced Net Zero Pathway (CCC BNZP) as a UK specific scenario that is built around the UK's ambition to reach net zero by 2050 by decarbonisation of the largest polluting sectors including the building industry and is from a credible and independent institution.

As a specialist lender, it is important to us that the we select credible and relevant climate change scenario's that considers sector activities relevant to our business activities and provides credible insight of progress and the challenges faced in decarbonising UK housing. We have also considered the requirements of the NZBA, and our overarching ambition of net zero by 2050 when selecting a scenario.

A number of scenarios were analysed against set criteria. The outcome of this analysis, is that we selected the CCC BNZP from which to set our financed emissions interim (2030) and long term (2050) net zero targets. This scenario balances expected reductions across multiple sectors, including a specific pathway for buildings that we feel is best representative of likely actions over time.

BASELINE YEAR

We have selected 2022 as our baseline year for our mortgages science based target. 2022 provides the most accurate estimate of emissions conducted to date and is in line with our ambition to improve the quality and coverage of data used within our PCAF calculation over time.

ESTIMATING FINANCED EMISSIONS

Date coverage, quality and estimates

In estimating the emissions from our mortgage lending, we have used the PCAF methodology for mortgages. This is a well-established approach and allows for improvement over time when making estimates, based on the availability and accuracy of the data source. A data quality score is calculated based upon the quality and accuracy of the data used.[9]

In the PCAF calculation, a proportion of the building's annual emissions are attributed to the mortgage provider using the loan-to-value of the mortgaged property. Thus, the attribution is equal to the ratio of the outstanding amount at the time of GHG accounting to the property value at the time of loan origination.

Financed emissions for mortgages are calculated by multiplying the attribution factor by the emissions of the building.

Our financed emissions calculations rely on externally sourced data. In our original 2022 baseline calculation, the emissions of the building were taken, where available, from Energy Performance Certificates (EPC's) which estimate the carbon emissions of a property. This resulted in 79.9% of properties having a valid EPC certificate and 19.7% of properties having emissions modelled or estimated based on postcode average or UK average. The calculation does not include non-modelled book or securitised loans. The properties floor area (m^2) is also taken from the EPC certificate allowing for the calculation of the intensity ratio $kgCO_2e/m^2$. In 2025, we recalculated 2022's financed emissions as a result of data quality improvements that meant the original baseline was no longer representative of the Group's emissions profile.

There are inherent limitations in using Energy Performance Certificates to calculate financed emissions such as the time lag for external data sources being updated, the age of certificates - up to 10 years old, and the methodology failing to prioritise carbon neutral over fossil fuel-based technologies.

[9] Our PCAF Data quality score for 2022 is 3.15 [updated to align with the restated 2022 emissions]

RESTATEMENT OF INTERMEDIATE NET ZERO TARGET FOR MORTGAGES

The reasoning for choosing year of 2022 is explained above.

	2022 Original published baseline	2022 Updated baseline
Finance missions Intensity	29.88	24.71

No changes have been made to the published emissions figures for 2023 and 2024.

Updated Intermediate Net Zero target for mortgages

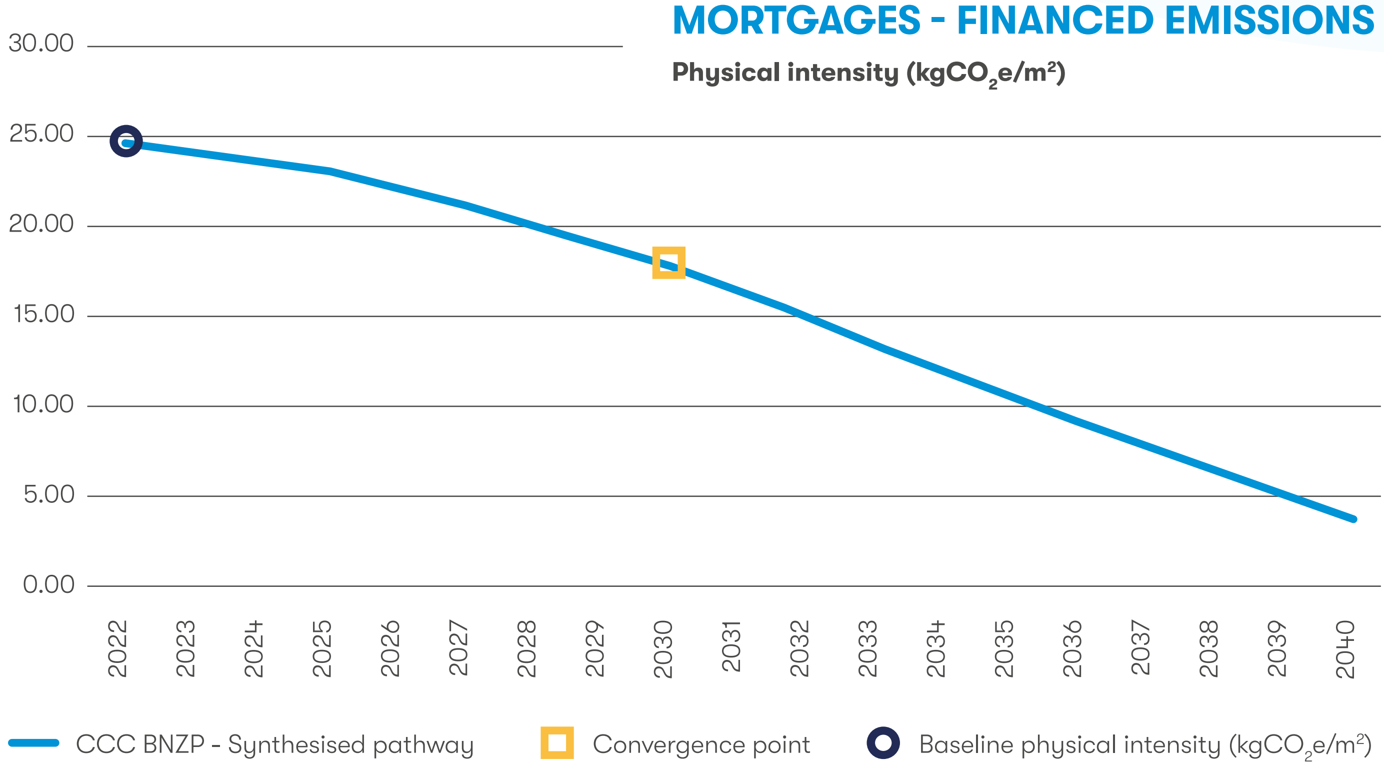
The recalculated financed emissions contributed 301,331 tCO_2e to the Group's inventory in 2022. This represents 96.7% of total emissions for the Group and the most material source within the Group's inventory. The financed emissions category represents the Group's mortgage lending activities covering the buy-to-let and residential mortgages and commercial and semi-commercial mortgage lending. These segments contribute 97% of total account balances.

Decarbonising UK housing stock is a complex and challenging task, one that will require widespread engagement and ultimately systemic change to how energy is generated and distributed and how homeowners heat, cool and power their homes.

In line with the CCC BNZP scenario our mortgage portfolio would need to reach an emissions intensity of 18.48 kg CO_2e/m^2 by 2030 against a 2022 baseline of 24.71 $kgCO_2e/m^2$ to be on the trajectory to net zero by 2050. This is the equivalent of a 25% reduction by 2030.

MORTGAGES - FINANCED EMISSIONS

Physical intensity ($kgCO_2e/m^2$)



GOVERNANCE

The Board ultimately considers and approves emissions reduction goals and targets. The Board delegated the day-today management of climate risk to the CEO, who is assisted by the ESG Forum and Group Executive Committees in discharging these responsibilities. In addition to its direct oversight, the Board delegate's responsibility for the Group's climate related risk appetite, risk monitoring, provisioning, and capital and liquidity management to the Group Risk Committee.

Our targets have been through a defined governance route, with scenario selection and subsequent targets discussed at ESG Forum, Group Executive Committee and ultimately approved by the Board.

Progress against the targets will be monitored regularly by ESG Forum, Group Risk Committee and Group Executive Committee and presented to the Board.

REPORTING

We will report progress against our targets externally on an annual basis, within our Climate-related Financial Disclosures. Our Climate Transition Pan development states all additional metrics that relate to the actions we are taking or plan to take towards achieving our ambitions.

REVIEWING OUR TARGETS

We expect that we will review our targets more regularly, but as a minimum we will review the intermediate science-based target, every five years.

As methodologies mature, data access challenges are overcome or stakeholder expectations change, we may choose to revisit how targets are set.

OPERATIONAL EMISSIONS

This document focuses on the Group's targets for financing activities and the commitments we made through membership of NZBA. It is recognised that whilst financed emissions contribute to the majority of emissions to our inventory, the emissions from the buildings we operate from must also be reduced. The Group has committed to addressing these emissions and in doing so have established a target to:

Reduce Scope 1 and Scope 2* emissions to net zero by 2030 from a 2022 baseline.

Further details, including how we plan to meet this are included in our Climate Transition Pan.

*Based on Market-Based methodology

FUTURE CONSIDERATIONS

We have limited control and influence over a number of key practical factors that will contribute to, or limit, the levels of decarbonisation of our mortgage portfolio by 2030. Progress relies on a stable government policy framework and consumer knowledge, appetite and affordability of investing in their properties. Cross industry action that considers the interrelated challenges to support consumer decision making and investment is vital. The Group remain committed to a considered and customer centred approach to decarbonisation and cognisant of the risk of unintended consequences associated with a penal approach to achieving our ambition.

Internal research has identified the following external factors as key influences on our ability to achieve our targets:

GOVERNMENT POLICY STABILITY

Minimum Energy Efficiency Standards

For customers to take action, appropriate and stable government policy, incentives and penalties are essential such as raising the minimum EPC ratings for the commercial and private rented sector buildings.

Heat and Buildings Strategy[10] and the Futures Homes Standard[11]

Increasing the energy efficiency standards of new build homes and the commitment to reaching a market capacity of 600,000 heat pumps installed a year by 2028. However, currently research[12] state current (as of 2025) installation rates are only one-tenth of that level with only ~1% of UK homes currently have a heat pump installed.

Pace of retrofitting the UK's existing housing stock

Having understood the important external challenges to retrofitting such as; trade capacity, manufacturing, cost, practicalities and knowledge, it is clear that government direction and clarity would be beneficial in all of these areas of the retrofit supply chain. 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. The UK's Energy Security and Net Zero Committee[13] states that 29 million homes will need to be retrofitted by 2050, but current progress falls far short of what is required. There is significant concern about the lack of long term policy certainty with many existing schemes being too complicated and short term to drive the needed scale.

Energy Grid decarbonisation

The UK's electricity mix will acquire a significant additional amount of renewable energy input as the UK government attempts to maintain its commitments to decarbonise the grid by 2035.[14] 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.[15] However "at the current pace of change, the UK is set to fail to hit its target of decarbonising the power sector by 2035".[16]

Cost - Payback periods on retrofitting and net zero technologies such as heat pumps often extend over a number of years. This maybe off-putting to both landlords and homeowners if the return on investment extends beyond their intended term of ownership.

Technology - 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 electrical network. Additionally heat pump technology designed with the UK's climate and aging housing stock in mind will be important to achieve large scale deployment.

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.

Should government policy fall short of net zero commitments, or consumer action remain limited, there will be a need for additional policy intervention for the government to deliver its legally binding net zero targets.

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1044598/6.7408_BEIS_Clean_Heat_Heat___Buildings_Strategy_Stage_2_v5_WEB.pdf
[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/956094/Government_response_to_Future_Homes_Standard_consultation.pdf
[12] https://publications.parliament.uk/pa/cm5901/cmselect/cmesnz/453/report.html
[13] https://publications.parliament.uk/pa/cm5901/cmselect/cmesnz/453/report.html
[14] https://www.gov.uk/government/news/plans-unveiled-to-decarbonise-uk-power-system-by-2035
[15] https://www.theccc.org.uk/publication/next-steps-for-uk-heat-policy/
[16] https://committees.parliament.uk/publications/39325/documents/193081/default/

USE OF CARBON OFFSETS

We are committed to taking action to reduce emissions and do not recognise carbon offsets as contributing to our net zero ambitions and targets. We have not offset Scope 3 category 15 emissions.

Since 2021, the Group have used carbon offsets from a limited number of schemes from the Voluntary Carbon Market (UN Clean Development Mechanism, Verra - Verified Carbon Standard or Gold Standard) to offset operational emissions in Scope 1 and Scope 2 and a limited number of Scope 3 categories related to our operational activities.

We intend to continue to use offsets to neutralise operational emissions that are yet to be eliminated. The use of offsets is not part of our intermediate science-based target.