

OSB GROUP PLC

GREENHOUSE GAS REPORTING METHODOLOGY 2024 (Scope 3 – Category 15 Financed Emissions)

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INTRODUCTION

Reporting Period – 1st January 2024 to 31st December 2024.

This document summarises the reporting methodology for OSB Group PLC's (the Group's) greenhouse gas (GHG) reporting of Scope 3 – Category 15 emissions for the above reporting period. This methodology is aligned with the GHG protocol and Partnership for Carbon Accounting Financials (PCAF) global standard.

The Group's aggregated emissions inventory, reported as carbon dioxide equivalent (CO_{2e}) comprises Scope 1 and Scope 2 emissions and Scope 3 upstream (excluding Category 4) and downstream Category 15 only. For further explanation please see the 2024 Annual Report and accounts.

REPORTING BOUNDARIES

Scope 3 – Financed emissions

The Group reports Scope 3 - Financed Emissions using the PCAF methodology and the financial control approach. This approach is used as the Group has the ability to direct the financial policies over its mortgage lending with a view to gaining economic and other benefits from its activities. PCAF states "Financial institutions shall cover the absolute Scope 1 and 2 emissions related to the energy use of the property financed through the mortgage. Energy use includes the energy consumed by the building occupants." A building's annual emissions are attributed to the mortgage provider using a loan-to-value approach. This document covers both Charter Court Financial Services (CCFS) and OSB brands, and includes Residential, Buy to Let (BTL), 2nd Charge, Bridging loans, Shared Ownership and Semi-/Commercial. The Development Finance, Funding Lines and Asset Finance portfolios are currently excluded from financed emissions calculations.

All live accounts meeting the above criteria at the end of the reporting period are included irrespective of (remaining) term, and all accounts are under the jurisdiction of the UK.

Emissions are published in the Annual Report and accounts, Climate Transition Plan and on the corporate website.

Scope 1 and Scope 2

[See separate Basis of Reporting for Scope 1 and 2.](#)

EXCLUDED ACTIVITIES

Development Finance, Funding Lines and Asset Finance portfolios are excluded from financed emissions calculation as the associated emissions have not been estimated. This accounts for 2.4% of total account balances with the remaining 97.6% being in scope of this activity. Assets with the highest contribution to the Group's lending balances have been prioritised for calculation and disclosure.

REPORTING FRAMEWORK

The Group have identified and developed a suite of performance indicators in line with its regulatory reporting obligations, risk management frameworks, ESG strategy, ESG Ratings agents' methodologies, Corporate Sustainability surveys, and the latest UK guidelines, including:

- Financed Emissions – the Global GHG Accounting & Reporting Standards (PCAF)
- The Greenhouse Gas (GHG) Protocol (WRI - World Resource Institute, WBCSD - World Business Council for Sustainable Development)

- Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022
- Task Force on Climate-related Financial Disclosure (TCFD)

GREENHOUSE GASES

In accordance with the Kyoto Protocols, the Group measures and reports emissions arising from the seven main greenhouse gases that contribute to climate change, namely carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

The effect of these emissions is reported as a single figure, carbon dioxide equivalent (CO₂e), which represents their combined global warming potential (GWP).

EMISSIONS MEASUREMENT AND ATTRIBUTION

SUMMARY

The PCAF methodology for mortgages 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 calculations produce the following metrics:

- **Financed Emissions:** The total amount of CO₂e (carbon dioxide equivalent) in tonnes per year that is attributed to the properties within the portfolio weighted by the “Attribution factor” (i.e., proportion of the property covered by the finance provided – see detailed calculations within [Financed Emissions section](#)).
- **Physical Emissions Intensity:** The financed or absolute emission per square meter of property floor area (taken from the EPC certificate) and measured in CO₂e kg per year per square meter.

In addition, a Data Quality score is calculated, based on the quality of the available data in accordance with the PCAF standards (Table 10.1-5). The scale ranges from 1 (highest Data Quality) to 5 (lowest Data Quality), with scores of 1 & 2 using actual building emissions, 3 & 4 estimated emissions based on floor area and 5 emissions estimated based on the number of buildings. The Group has three ways of calculating carbon emissions – using address level EPC matching; postcode level estimates; or portfolio level averages, and so each account has been given a rating of 3 or 5 (see [Data Quality Score Calculation](#)).

DATA COLLECTION

Input Data – Internally Sourced

The following account level data is sourced internally for both CCFS and OSB and is taken from the databases as at the 31st December 2024:

- Current balance
- Product type/line of business
- Indexed valuation
- Original valuation amount (including purchase price and latest valuation as fall backs for CCFS only)

Input Data – Third Party Data

The Group provides aggregated (OSB & CCFS) account and property address details to a third-party environmental data specialist. The data returned includes a report matching properties to Energy Performance Certificates stored on the Department for Levelling up, Housing and Communities (DLUHC) register or an estimate of emissions, based primarily on postcode average if the property is not matched to a valid EPC. For estimates of floor area used in intensity metrics, where there is no available EPC information the third-party provides values modelled using a variety of property level information from sources such as estate agent viewings and ordinance survey data. The inputs to the emissions calculations that originate from the third-party report provided at an address level, include:

- Current EPC rating (A-G)
- Floor area (m²)
- Matching type (address or postcode level)
- Current CO₂ emissions estimate taken from the latest EPC¹

As the data comes from the DLUHC database, only EPCs recorded from 1st October 2008 have been included. The database also does not include any data where:

- The holder of the energy certificate has 'opted-out' of disclosure
- The energy certificates are excluded on grounds of national security
- The energy certificates are marked as 'cancelled' or 'not for issue'

Where there are multiple EPCs, the information from the most recent one is used.

Note – All data is captured as at 31st December 2024.

BASE YEAR

The Group have used 2022 as the base year. 2022 emissions have been used to set [Net Zero Banking Alliance Near term targets](#).

The base year has been selected in line with Science Based Targets initiative (SBTi) guidance on selecting a baseline year which identifies the below criteria:

- 1) verifiable data on Scope 3 Financed emissions should exist for the base year
- 2) the base year should be representative of a company's typical GHG profile
- 3) the base year should be chosen such that the target has sufficient forward-looking ambition.

DATA ESTIMATIONS

Changes in process:

Since 2022, there have been enhancements to the process to improve the accuracy of the data. These include:

- Data quality controls operated by third-party data provider were introduced into the process that identified outliers in the information provided on the government register which date back to EPCs pre-2009.
- Additional data quality cleanse to improve match rate and accuracy of addresses from accounts pre-2022.
- Data aggregation – previously where there were multiple properties to an account, the Data Quality score would take the best quality match and apply it to account level. This has been changed to apply the Data Quality score proportionally based on floor area.
- Missing values for floor area and CO₂ emissions have been updated to take the median across brand and portfolio at address level, excluding postcode averages. Previously this was calculated by Brand, including postcode average values all at account level.

¹ EPC's only include estimates of regulated energy use related to heating, cooling and ventilation.

- Data Quality score – previously those assigned via a postcode average were given a Data Quality score of 4. This has been updated to apply a score of 5 which better aligns to the definition given within the PCAF standard.
- Applying the Standard set of IFRS9 exclusions to introduce a consistent definition of “Live accounts”.

Missing Data:

There are several instances of missing EPCs, floor area or CO₂ emissions in the data returned from the third-party. This could be due to an address not being matched or due to an address not having an EPC. In addition, some historic EPCs uploaded to on the Department for Levelling up, Housing and Communities register may be incomplete (e.g. missing CO₂e emission estimates) or have values masked on older EPCs due to being clear outliers. The following assumptions are made where data is missing:

- Floor Area: The median floor area is calculated and applied at an entity (OSB/CCFS) and asset class (BTL, Residential, 2nd Charge etc.) level.
- CO₂ Emissions: As with Floor Area, the median value is used based on the entity and asset class categories.

The median values detailed are calculated on properties that have a full address match.

- Overall, 82.9% of addresses match to a valid EPC and therefore directly use the information stored on the EPC.
- 16% use postcode averages/modelled floor area (13% match at property level but have no valid certificate, whilst 4% are only able to be matched at postcode level).
- 1% use portfolio averages for both the figures noted above.

Note: Due to partial EPC certificates (i.e. missing information on certificates), ~1.0% of properties have the portfolio average applied for CO₂e emissions whilst ~3.3% have the portfolio average applied for the floor area assumption.

Missing Valuations

Where the original valuations are missing, the purchase price/latest valuation is used for CCFS or, if unavailable, the latest indexed valuation is used (both CCFS and OSB). In 2023, only 3 CCFS property used purchase price whilst 450 (0.7%) used indexed valuation for OSB.

Note: The use of the latest indexed valuation on the 453 properties is an acknowledged deviation from the PCAF methodology. This is due to the lack of original valuation data on 3 of OSB's acquired portfolios and has a negligible, and decreasing, impact on the PCAF numbers.

Minimum Valuation

Where the original valuation is below £50k, the attribution factor is defaulted to the median attribution factor for accounts with valuations above £50k (see [attribution factor calculation](#)). This is split by entity and calculated at account level. The purpose of this is to ensure that any low valued and likely erroneous valuations, do not significantly impact the overall emissions values.

Data Aggregation

11.5% of customers have multiple addresses financed within a single account. Whilst the third-party provided report breaks down the accounts to address level to gain a match with EPCs, the balance and valuation data held internally is at an aggregated account level. To establish an estimate for the balance and valuation attributable to each address, the ratio of the address level floor area to the account level floor area is used to apportion the balance/valuation as follows:

$$Weighted\ Balance_p = \frac{Estimated\ Floor\ Space_p}{\sum_{p \in a} Estimated\ Floor\ Space_p} \times Current\ Balance_a$$

And:

$$Weighted\ Valuation_p = \frac{Estimated\ Floor\ Space_p}{\sum_{p \in a} Estimated\ Floor\ Space_p} \times Valuation_a$$

Where p=property and a = all properties in the account.

Note: the estimated floor area is based on all addresses including those with modelled floor area applied. In cases where there is either no match or postcode only matches, then this calculation apportions out the balances equally across the addresses, as the addresses would be assumed to all have the same floor area.

CALCULATIONS RELATING TO FINANCED EMISSIONS

Absolute Emissions

The total amount of CO₂e (Tonnes) per year that is estimated for all the properties within the portfolio:

$$Absolute\ Emissions = \sum_p CO_2\ Emissions_p$$

Note: tCO₂e emissions per address include the defaults applied to the missing values.

Financed Emissions

The total amount of CO₂e (Tonnes) per year that is attributed to the properties within the portfolio weighted by the finance associated to the property:

$$Financed\ Emissions = \sum_p (CO_2\ Emissions_p \times \text{Min}(1, Attribution\ Factor_p))$$

Where p = property and Attribution Factor is calculated by:

$$Attribution\ Factor_p = \begin{cases} Valuation_a \geq £50k, & \frac{Weighted\ Balance_p}{Weighted\ Valuation_p} \\ Valuation_a < £50k, & Median\ Attribution\ Factor_{accs \geq £50k} \end{cases}$$

Where $Valuation_a$ is the valuation at account level and $Median\ Attribution\ Factor_{accs \geq £50k}$ is the median of the account level attribution factors.

Note: as the weightings applied to both balance and valuation are the same for each account, the calculation is equivalent to calculating attribution factor at account level.

Physical Emission Intensity

The absolute or financed CO₂e emission kg's per square meter of property floor area:

$$Absolute\ Physical\ Emissions\ Intensity = \frac{Total\ Absolute\ Emissions}{Total\ floor\ area\ of\ portfolio} \times 1,000$$

Or:

$$Financed\ Physical\ Emissions\ Intensity = \frac{Total\ Financed\ Emissions}{Total\ floor\ area\ of\ portfolio} \times 1,000$$

Note: Where an existing customer remortgages i.e. fixes on a new product after the expiry of their initial fixed term with OSB, the original valuation is retained.

Data Quality Score

There are 3 possible ways that property is assigned an EPC rating and carbon output. For each of these, Data Quality (DQ) scores are assigned in accordance with the PCAF standards Part A – page 146 in the following ways:

Match Type	DQ Score	Rationale
Address Level	3	Actual EPCs and floor space values used but not based on actual energy consumption. Awarded highest non-actual energy consumption rating of option 2a.
Postcode Level	5	Postcode averages used for CO ₂ emission estimates. As floor space is also unknown (and therefore averages used) these accounts are classified under option 3.
Default Values	5	Portfolio averages for floor space and CO ₂ emissions are used for each property and DQ is rated at the lowest grade of option 3.

Each of these scores is assigned to the address level data based on the best type of match (address>postcode>default values) and the following calculation is used to create the portfolio level Data Quality score:

$$\text{Portfolio DQ Score} = \frac{\sum_p \text{DQ Score}_p \times \text{Weighted Balance}_p}{\sum_p \text{Weighted Balance}_p}$$

Where p = property.

This gives a weighted average score for the entire portfolio.

Limitations

As noted above in more detail above, the process has several limitations including:

- Reliance on matching properties to the Department for Levelling up, Housing and Communities register and the timeliness, accuracy and validity of the data contained within the EPC certificate.
- Where EPC certificate information is unavailable, the property is assumed to be consistent with those within the postcode.
- Attribution factor is calculated at account level as data is unavailable to provide accurate estimates of the proportion of the account balance that is held against each property when there is more than one security.

Future Improvements

For the purposes of increasing the accuracy of the financed emissions numbers, some minor developments are proposed for the next reporting cycle including:

- Improved accuracy of the property match through review of the quality and format of the address fields provided by real estate.
- For the 0.7% of OSB properties that use a current index valuation due to missing original valuation, incorporate the earliest available valuation and store the values for subsequent PCAF calculations. This has been assessed to have minimal impact on values (the average attribution factor increases by <0.05%) but can be included in 2025.

RESTATEMENT POLICY

Whilst the Group's methodology is aligned with the GHG Protocol and PCAF methodology, maturity in implementation continues to evolve to deliver consistent and comparable reporting. The Group may therefore further refine its approach in future periods. When this happens, details will be provided in the notes associated with the data to support and explain this.

If there are significant changes to the data, inventory boundary, methods or other relevant factors, then relevant comparative period information will be updated where available.

For Scope 3 Category 15, the Group considers any variances that would significantly alter stakeholders' interpretations of information presented (i.e. if that variance could be reasonably expected to influence decisions that would be made on the basis of the information presented) to be considered qualitatively material.