Environment

Reducing impact from our operations

As a specialist lender, the impact of our operations is relatively low compared to the emissions associated with properties we provide finance for. Our operational emissions are driven predominantly by the use of resources associated with electricity and gas, the procurement of goods and services and travel for business purposes. These sources are to be expected given the simple nature of our operations. The Group has been committed to reducing the footprint of our operational emissions for a number of years and progress has been made against our 2019 baseline.

100%

of electricity purchased by the Group in the UK was from renewable tariffs

Management

Our Environmental Policy embodies the Group's commitment to meeting or exceeding all relevant environmental obligations under law and regulation, reducing our impact and to continuously improving performance. The policy is endorsed by the Environmental, Social and Governance (ESG) Committee and approved by the Group Nomination and Governance Committee.

Policy commitments:

- accepting responsibility for contributing to the protection of the environment and striving to ensure that our actions will not detract from the long-term sustainability of environmental resources;
- striving to reduce the consumption of materials and energy and use renewable or recyclable materials where possible;
- to be a 'Zero to Landfill' business, meaning that all Group waste is either reused, recycled or sent to a dedicated Energy from Waste facility;
- to minimise harmful emissions and prevent pollution;
- to promote advantageous environmental practices by all employees; and to consult with suppliers to improve the environmental impact of goods and services provided to the Group.

Below are the objectives stated within the policy:

Energy and water
- seek to reduce the amount of energy used as much as possible;
- adjust heating with energy consumption in mind; and
- the energy consumption and efficiency of new products will be taken into account when purchasing.

Paper
- minimise the use of paper in the office;
- reduce packaging as much as possible;
- seek to buy recycled and recyclable paper products; and
- reuse and recycle all paper where possible.

Office supplies
- evaluate the environmental impact of any new products the Group intends to purchase;
- favour more environmentally-friendly and efficient products wherever possible; and
- reuse and recycle everything where possible.

Transportation
- promote the use of travel alternatives such as e-mail or video/telephone conferencing;
- make additional efforts to accommodate the needs of those using public transport;
- encourage car sharing for journeys to and from the workplace; and
- favour 'green' vehicles and encourage use by providing electric vehicle charge points.

Maintenance and cleaning

- cleaning materials used will be as environmentally-friendly as possible;
- materials used in office refurbishment will be as environmentally friendly as possible; and
- only licensed and appropriate organisations will be used to dispose of waste.

All UK offices work under a management system certified to the international environmental management standard ISO:14001 2015, supported by the Environmental Working Group whose efforts are focused on raising awareness across the Group and driving improvement.

Improvement has been driven by programs including:

- further replacements of lighting with energy efficient solutions;
- the effective management of energy consumption through our Building Management Systems;
- procuring paper for our offices that comes from renewable sources and recycling it when its disposed of;
- increasing awareness amongst employees through training;
- OSBI offices becoming paperless;
- installation of Electric Vehicle charging points in UK office locations; and
- implementation of the Group's Electric Vehicle Incentive scheme.

The ongoing pandemic and the impacts of lockdowns, restrictions and our priority to protect the health of employees hampered our ability to further progress delivery against objectives.

2021 was a milestone year for the Group, committing to carbon neutrality in our operational emissions for the first time and to delivering net zero operational emissions by 2030.

This further demonstrates the absolute commitment of the Group to responsible and sustainable business practices.

2021 was the first year that 100% of the electricity the Group procured in the UK came from renewable sources saving around 342 tonnes of CO_2 emissions (tCO_2e). High quality carbon offsets from Verra – Verified Carbon Standard, Gold Standard or UN Clean Development Mechanism certified programs have been used to compensate for the residual emissions of 908.8 tCO_2e.

Greenhouse gas emissions

We utilise the Greenhouse Gas Protocol to measure our carbon footprint across Scopes 1, 2 and 3. Scope 3 has 15 categories, the most material of which (Category 1 paper and water, Category 3 electricity transmission and distribution, Category 5 waste and Category 6 business travel) are within our own activities, other than financed emissions (category 15).

We have reported on all of the emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – commonly referred to as Streamlined Energy and Carbon Reporting (SECR). The emissions disclosure is verified by Interface NRM, an independent UKAS and ASI accredited Certification Body, operating in accordance with ISO 17021 (2015) Conformity assessment: Requirements for bodies providing audit and certification of management systems; and ISO 17065 (2012) Conformity assessment – Requirements for bodies certifying products, processes and services.

OSB Group plc is a 'quoted company' under the SECR regulation and must report annually on greenhouse gas emissions from Scope 1 and 2 electricity, gas and transport.

In 2021, we reduced our absolute operational Scope 1, 2 and 3 (business travel, paper, waste, water, electricity transmission and distribution) emissions by 10.2% against a 2019 baseline. This remains primarily due to the impact of the pandemic and through reduction and efficiency activities.

Our 2021 total market-based[2] operational footprint was 908.82 tCO_2e, covering Scopes 1, 2 and 3 (business travel, paper, waste, water, transmission and distribution). The market-based methodology includes reductions from the procurement of electricity from renewable energy tariffs that covered 67% of consumption.

Reduction in operational carbon footprint[1] against 2019 baseline

10.2%

1. Operational footprint is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, electricity transmission and distribution) emissions and excludes upstream and downstream emissions from the Group's value chain.

Increased occupancy in 2021 drove higher overall consumption of electricity, natural gas and gas oil than in 2020, (an additional 391,372 kWh) all sources of fuel for heating, lighting, power and ventilation.

In addition, we expanded our emissions inventory in 2021 to include further Scope 3 categories including rail, taxi and accommodation, which contributed an additional 18tCO_2e, and the emissions form transmission and distribution losses associated with the electricity we were supplied with, contributed 31 tCO_2e.

These improvements have built on the energy efficiency activities of 2020, where benefits were driven primarily through investment in improved controls of Building Management systems and the majority of the estate changing to LED lighting and PIR sensors, with LED lighting fitted in all refurbishment works undertaken.

2. The market-based method reflects emissions from electricity that we have purposefully chosen e.g. renewable energy tariffs. It derives emission factors from contractual instruments.

Greenhouse Gas (GHG) Emissions

Direct and indirect GHG emissions (Scopes 1, 2 and 3)	Description	Specific fuels			
Amounts in metric tonnes CO_2 equivalent			2019	2020	**2021**
Total direct (Scope 1)	Combustion of fuel on site and transportation	On site: natural gas, gas oil transport: petrol, diesel, unknown vehicle fuel	151.75	268.36	**269.77**
Total indirect (Scope 2)	Purchased energy	Electricity			
		Location-based	1,084.45	789.86	**869.37**
		Market-based	1,034.05	386.00	**527.14**
Total indirect Scope 3 (exc. category 15)	GHG Protocol Scope 3 material categories exc. category 15	Unknown vehicle fuel	156.81	71.26	**111.91**
Total operational emissions (location-based)	For electricity, reflects the average emissions intensity of grids on which energy consumption occurs		1,393.01	1,128.62	**1,251.05**
Total operational emissions (market-based)	For electricity, reflects the emissions from the electricity that we are purchasing, including renewable energy tariffs		1,393.01	725.62	**908.82**
Total Indirect Scope 3 – financed emissions (category 15)	Category 15 Investments (financed emissions)[1]	Scope 1 direct and 2 indirect emissions (gas and electricity)	N/M	N/M	**278,854**
Total GHG emissions	All measured emissions for the year 2021		**1,393.01**	**1,128.62**	**280,105.05**

GHG intensity

GHG intensity ratio	Description			
		2019	2020	**2021**
Full Time Equivalent (FTE) employees	The number of FTEs employed	1,789	1,740	**1,744**
Annual turnover	£m	343	508	**629**
Scope 1, 2 and 3 (business travel only)	Metric tonnes of CO_2 equivalent per employee	0.78	0.65	**0.72**
Scope 1, 2 and 3 (business travel only)	Metric tonnes of CO_2 equivalent per £m turnover	4.06	2.22	**1.99**
Scope 3 financed emissions – physical emissions intensity	Kgs of CO_2 equivalent per square metre[2]	N/M	N/M	**24.81**

Country breakdown – operational emissions

Direct and indirect GHG emissions
(Scopes 1, 2 and 3 non-category 15)

	2019	2020	2021
UK			
Tonnes of CO_2 equivalent	933.21	624.22	**637.44**
Percentage of overall operation emissions	67%	55%	**50%**
India			
Tonnes of CO_2 equivalent	459.8	504.71	**631.61**
Percentage of overall operation emissions	33%	45%	**50%**

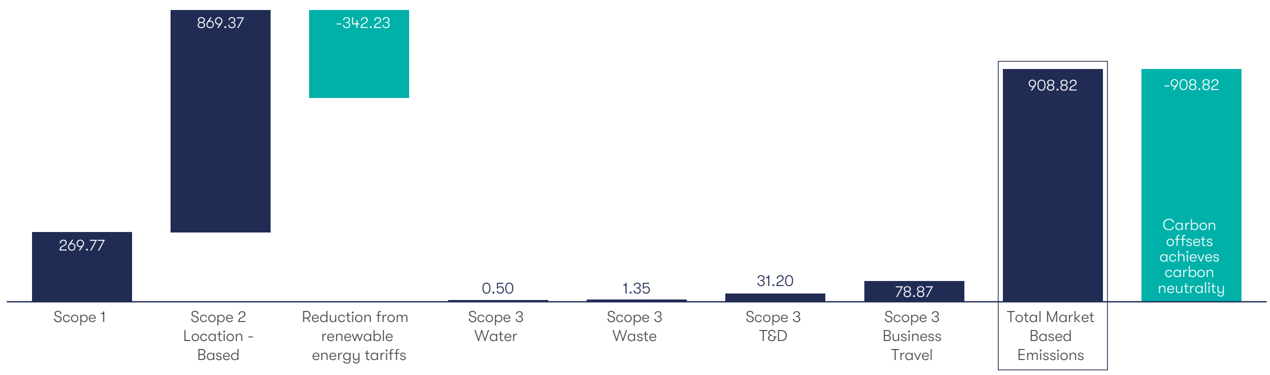
Energy consumption

Energy usage kWh	Specific fuels	2019	2020	2021
Total kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	3,459,592	**3,801,988**
UK kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	2,818,406	**2,952,631**
India kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	641,186	**849,358**

N/M = Not measured

1. Calculated by multiplying an attribution factor (outstanding amount of loan divided by the property value at origination) by the emissions associated with the property taken from EPC. Calculated for the mortgage portfolio as the largest asset class. It does not cover non-modelled book or securitised loans.
2. Total 2021 sq m coverage was 11,238,236.7. Absolute emissions 467,188.02 tCO_2e, financed emissions 278,853,50 tCO_2e (calculated as per PCAF methodology for Mortgages).

2021 Operational Emissions Breakdown (tCO_2e)



Electricity and gas

The majority of our operational emissions is generated through the use of electricity, gas and diesel. These energy sources are used in the most part to provide heat, power, lighting and ventilation to our office buildings.

In 2021, all electricity purchased in the UK came from renewable energy tariffs, reducing net emissions by 342 tCO_2e, when using the market-based method. The market-based method reflects specifically the emissions from the electricity that a company is purchasing; this may be different from the location based method, which reflects electricity that is generated locally.

In India, diesel is used to power back-up generators that are frequently used as a result of instability in the electricity grid.

Waste

Waste generated within our buildings is segregated at the point of disposal, prior to removal from site. Business process waste is in the form of paper, waste from electrical and electronic equipment (WEEE), alongside general household waste generated in employee welfare areas. Where the Group is responsible for final disposal of waste, it is recycled or sent to an Energy from Waste facility. 63 tonnes of waste paper were recycled in 2021 via a specialist contractor.

Water

Water use is driven directly by the occupancy of our buildings in relation to welfare facilities. The emissions associated with water use are c.0.4% of our overall operational footprint.

Achievements in 2021

Pillar	Ambition	Progress
Net Zero emissions by 2050	Delivering the Group's transition to a low carbon economy in line with climate science	Reduced absolute Scope 1, 2 and 3 (business travel only) emissions by 10.2% from a 2019 baseline
		Re-certification of our UK office buildings to ISO 14001:2015 Environmental Management Standard
		All purchased electricity in the UK was from renewable energy tariffs and represented 67% of electricity the Group procures annually.
		Set a baseline for Scope 3 financed emissions using PCAF methodology
		Committed to offset our 2021 Scope 1, 2 and 3 (business travel only) emissions using verified and validated carbon offsets
		Started work to determine our Net Zero targets using SBTi methodology for Scope 1, 2 and 3 emissions
		Launched the Electrical Vehicle incentive scheme giving employees access to electric vehicles at competitive prices
		OSBI now operates paperless offices saving c. 3,400 A4 sheets of paper
		Integrated greenhouse gas emissions metrics and targets into Executive remuneration
Mitigating and adapting to Climate Risk (Further detail can be found in the TCFD report on page 86)	Incorporating climate-related risks and opportunities into risk management and strategic planning	Formalised our approach to Climate Risk Management by incorporating it into the Group Enterprise Risk Register with the requisite frameworks, risk management tools and oversight mechanisms
Sustainable products	Delivering options to our savings and lending customers that support their transition to low carbon	Initiated work to develop products that offer a meaningful opportunity for the Group and customers to address financed emissions
Sustainable supply chains	Supporting our suppliers and service providers towards carbon literacy and delivering decarbonisation across our value chains	Updated our Vendor Code of Conduct and Ethics to include expectations of vendors to integrate environmental considerations into their operational processes and to monitor and improve environmental performance
Collaborating to succeed	Actively seeking out opportunities to go further, faster in driving real change in the financial services sector and real economy	Joined the United Nations Net Zero Banking Alliance
		Signed the commitment letter to the Science Based Targets initiative
		Signed the commitment letter to the Partnership for Carbon Accounting Financials

In 2022, we will set science-based targets for 2030 in order to achieve net zero no later than 2050, aligned with the goals of the Paris Climate Accord.

Neil Richardson
ESG Sustainability Director

Reducing impact from our portfolio

Financed emissions

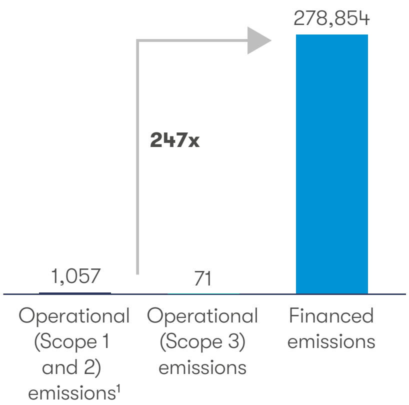
A significant step forward was made in 2021 with the establishment of a baseline for our mortgage portfolios financed emissions. Financed emissions, (classified as Scope 3) are the greenhouse gas emissions associated with our loans and investments in a reporting year.

The Group has selected the Partnership for Carbon Accounting Financials (PCAF) methodology as the most robust and suitable method to calculate financed emissions. The PCAF method attributes a proportion of the total emissions of a property, taken from Energy Performance Certificate (EPC), to the lender based on the outstanding value of the loan versus the value at origination. An inherent limitation of this methodology is that it relies on the availability of property EPC certificates. In 2021, 76% of properties had a valid EPC certificate. Where a valid EPC certificate was not available, properties were allocated a D rating. 2021 PCAF calculations included the mortgage portfolio as the largest asset class. It did not cover non-modelled book or securitised loans.

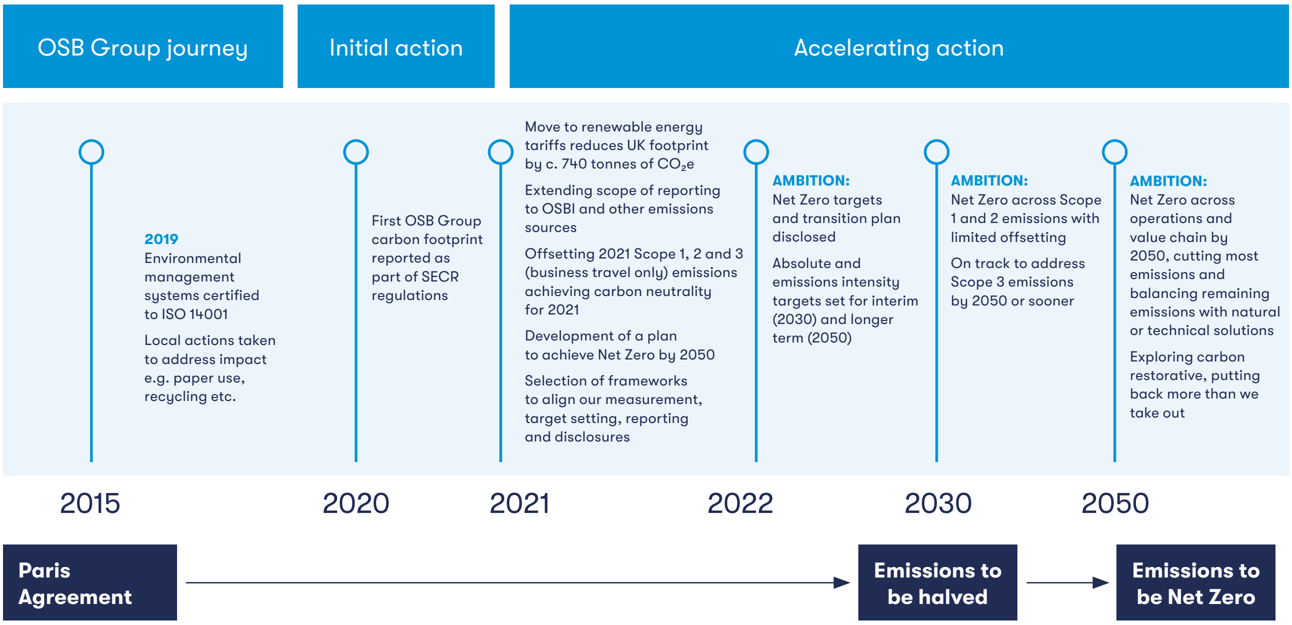
We will look to improve EPC coverage to improve the accuracy of our emissions calculations over time.

The outcome of our initial baseline is that financed emissions account for around 247 times that of our operational emissions; see the graph to the right that shows the comparison between our operations emissions and our financed emissions.

Financed emissions baseline
OSB's GHG emissions (tCO_2e)



Pathway to Net Zero in 2050



Net Zero

The financial sector, including specialist lenders such as ourselves understand local communities and stakeholders and can shape the path to net zero demanding a just and fair transition for the UK's communities. Through sector-wide initiatives we can define the action needed to ensure we deliver a net zero future that supports our customers, colleagues and communities to prosper.

The Group has made formal commitment to:

- Science-Based Targets Initiative (SBTi)
- Partnership for Carbon Accounting Financials (PCAF)

These initiatives will ensure our emissions baselines and reduction targets are aligned with the latest, sector specific thinking on measurement, carbon reduction pathways and target setting.

The Group is excited to have joined the United Nations – Net Zero Banking Alliance (NZBA) recognising that collaborative working to solve the challenges that lie ahead will be critical in maintaining momentum and creating a meaningful voice to represent the needs of the sector and those of our customers. Integral to our membership of NZBA and beyond, we are committed to using the deep understanding of the sub-sectors we work in to provide thought leadership reflective of the specialist nature of our business and our position in the market. We believe adopting a leadership position in this evolving arena will ensure value creation for our customers, colleagues and communities.

Priorities

The Group is focused on driving down our own direct impact on the climate through proportionate and meaningful action. Furthermore we are committed to ensuring that we provide strong thought leadership, education, awareness and products that help customers achieve climate-related improvements, thus ensuring that we expand our scope of focus to the emissions we enable through our footprint.

The Group's net zero strategy is based on a responsible and transparent transition for our operational emissions with the following principles for action:

- eliminating emissions wherever possible
- improving the efficiency of our processes to reduce the associated emissions or their impact
- offsetting the residual emissions through the procurement of validated and verified high quality carbon offsets.

In 2022, we will work to define our wider Scope 3 indirect emissions inventory. In doing so, we will better understand the overall emissions profile of upstream and downstream activities associated with our supply and value chains. With this analysis we can identify significant emissions sources and associated risks and opportunities for improvement.

A forward looking decarbonisation plan for our operations emissions towards net zero by 2030 will be defined and deployed during 2022.

Addressing the emissions associated with the properties we finance will be a strategic focus for 2022 but requires careful consideration to make sure our transition plans drive real emissions reductions, are sustainable, fair and offer value to our customers.

In 2022, we will publish our Net Zero targets for operational emissions[2] and financed emissions[3], defined using STBi methodologies. This cements our ambition to the delivery of the Paris Climate Accord goals.

Priorities table

Targets	Set and disclose Science Based Targets for Scope 1, 2 and 3 emissions for 2030, in order to achieve net zero no later than 2050
Transition plan	Define the near and medium term actions the Group will take to deliver the transition to Net Zero by 2050
Metrics	Implement suitable metrics and improve data integrity and quality to measure and report progress towards targets
Engagement	Engage key stakeholders in understanding our carbon ambitions and improving carbon literacy
Products	Develop and release products that deliver a material difference to our net zero ambitions and those of our customers
Supply Chain	Cascade our ambitions to strategic suppliers of goods and services in order to begin addressing our supply chain emissions
Collaboration	Identify key collaboration opportunities for both sharing and learning through initiatives, programs, charities and networks
Risk assessment	Further refine our approach to climate risk assessment in line with climate and ESG strategy. Further detail on opportunities for 2022 can be found in the TCFD report on page 86

1. Operational emissions are based on 2020
2. Operational emissions target boundary will reflect Greenhouse Gas Protocol standard inventory boundary with all Scope 1 and Scope 2 categories and material scope 3 categories in scope, excluding Category 15 financed emissions which will have a separate target.
3. A specific target for Scope 3 category 15 financed emissions will be set following SBTi Guidance for Financial Institutions.