



Our approach to

Net-Zero Targets and Financed Emissions

2023



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Chief Executive's statement

What a business stands for has never been more important. The customers and communities we serve, and the people who work for us, need confidence that their bank is acting to address issues that matter to them. Therefore, being able to demonstrate the wider contribution that TSB makes to society is crucial to the continued success of our business – and tackling climate change is a priority issue for all of TSB's stakeholders.

The latest report from the UN's Intergovernmental Panel on Climate Change¹ spells out in stark terms that "deep, rapid and sustained reductions" in greenhouse gas emissions are needed to limit global warming, as set out in the 2015 UN Paris Agreement². It's incumbent on every business to make solid plans and take concerted action now to address this – and that's precisely why we are publishing this report to update on TSB's plan.

Doing better for the planet is a key element of our Do What Matters Plan which, in turn, is integral to TSB's business strategy for the coming years.

As part of this, we are already reducing our own operational emissions. We have set an ambitious target to achieve net zero in our own operations by 2030 – and are setting science-based targets to how we will meet this aim.

However, there is much further for us to go beyond our own buildings and operations. Today's report highlights how, as part of the Net-Zero Banking Alliance (NZBA)³, we're setting additional targets and commitments to reach net zero across our mortgage lending by 2050.



¹ [UN's Intergovernmental Panel on Climate Change - AR6 Synthesis Report Climate Change 2023](#)

² [The Paris Agreement | United Nations](#)

³ The Net-Zero Banking Alliance (NZBA) is an industry-led, UN-convened alliance of banks worldwide, all committed to aligning their lending and investment portfolios – their financed emissions – with pathways to net zero by 2050, or sooner.

Financed emissions

The formation of the NZBA, launched ahead of COP26 in Glasgow, underlines the collective strength of the financial services sector in bringing about a reduction in financed emissions.

From our work in establishing TSB's emissions footprint, we know the specific area where TSB can make the greatest impact is in helping our customers take action to improve the energy efficiency of their homes; the target we are setting covers 88% of our total lending and investment portfolio. And tracking this aligns well with our purpose – Money Confidence. For everyone. Every day. – as this can help reduce bills and build Money Confidence.

This report highlights that by setting a clear interim target for the financed emissions from our mortgage portfolio by 2030, we can establish a credible bridgehead from which to advance towards net-zero emissions by 2050, in line with the Paris Agreement. We will report annually, alongside our financial reporting, on progress in delivering reductions of our financed emissions.

Next steps

In working towards the NZBA targets we are publishing today, we will look to develop products and propositions that provide Money Confidence and help our customers improve their home energy efficiency, with the key areas set out in this report. We plan to publish more detailed plans in January 2024 and will ensure these remain fully aligned with the sustainability strategy of our parent company, Sabadell.

However, we cannot proceed on this journey alone. We remain committed to be part of the collaboration between all sectors, governments, and regulators to ensure that emissions data is accurate and reliable, and that there are affordable routes for customers to improve the energy efficiency of their homes.

We look forward to taking forward these ambitious plans as part of the NZBA and, in delivering against them, to demonstrate to all our stakeholders in the years to come how TSB is doing what matters for the planet.

Robin Bulloch
Chief Executive Officer
15 August 2023

Setting the context

Greenhouse gas emissions from the UK's residential housing stock account for around 16% of the UK's emissions annually³; these emissions need to reduce to zero by 2050 at the latest to meet the UK's legally binding net-zero target.^{4,5}

Measuring the emissions generated through our residential mortgage lending and calculating an interim science-based target for 2030 is our starting point for contributing towards the UK target.

To calculate our mortgage lending emissions, we have followed the methodology set out by the Partnership for Carbon Accounting Financials (PCAF). The PCAF methodology relies on data drawn from Energy Performance Certificates (EPCs), as the most widely current available source of information on residential property carbon emissions. However, there are several well-documented limitations with EPC data,⁶ leading to calls for better coverage of EPCs and for EPCs to use new, more accurate metrics.⁷ The Government has confirmed it is currently working on proposals for improving EPC coverage and metrics.⁸

Our baseline, and consequently our 2030 target, are therefore only as accurate as data and methodologies currently allow. As data availability and quality improves, guidance and methodologies are updated, and as market practice, regulation and legislation evolve, our emissions baseline and target will be revised.

In the near term, TSB will embark on understanding what customers most want support with and raising their awareness of the benefits, and necessity, of home energy improvements, with further details of our plans to meet those customer needs set out in January 2024.

Our analysis shows that TSB action alone will not meet the science-based target. It will also require concerted action from government and homeowners, over which we have only limited control and influence. As a result, to make a significant and timely impact, the work of TSB and other banks needs to be supported by a wider set of actions to reduce the emissions from the UK's housing stock by 2050. Based on analysis and market conditions, TSB has identified that it has an opportunity to achieve a reduction from its current emission level of 20.14 kgCO₂/m² to between 16.11 - 14.97 kgCO₂/m². This significantly advances TSB's position toward the 42% target reduction set under NBZA. However, to reach the required emissions level of 11.75 kgCO₂/m² will need significant engagement from government and others to create the environment for consumers to improve their properties.

We have set out below the government-led policy actions and the wider societal shifts, particularly by homeowners, we believe are necessary, highlighting where TSB can best influence those changes.

³ [UK Greenhouse Gas Emissions 2021: summary \(publishing.service.gov.uk\)](#)

⁴ [Climate Change Act 2008 \(legislation.gov.uk\)](#)

⁵ [The Sixth Carbon Budget: The UK's path to Net Zero.pdf \(theccc.org.uk\)](#)

⁶ [PCAF UK 2020/21 Year 1 Report of the UK Partnership for Carbon Accounting Financials](#)

⁷ [MISSION ZERO - Independent Review of Net Zero \(publishing.service.gov.uk\)](#)

⁸ [Responding to the Independent Review of Net Zero's Recommendations \(publishing.service.gov.uk\)](#)

Reducing the UK's housing emissions

Achieving the science-based reduction in emissions from the UK's residential housing stock - at pace and scale - requires government-led policy actions, and wider societal shifts, particularly by homeowners:

Systems-level changes

Approach

Scope to influence

1. Retrofitting existing housing stock to improve insulation and install low-carbon heating systems

Supportive

Limited influence

2. New housing built to net-zero standards

Supportive

Limited influence

3. Decarbonisation of the UK power grid

Supportive

No influence



1. Retrofitting existing housing stock

To achieve net zero by 2050, the UK's existing homes need to be adapted to improve energy efficiency and run on low-carbon heating systems. Approximately 50% of the UK housing stock was constructed pre-1965 and is predominantly difficult and costly to retrofit. This presents a significant challenge for customers and lenders.

Key interlinked actions to achieve the take-up at scale of needed retrofits include:

- Increased customer awareness
- Fair and affordable finance
- Frictionless installation



Increased customer awareness

Lack of customer awareness is an often-cited reason for the limited take-up to date of energy-efficiency home improvements and low-carbon heating technologies.

To increase awareness across our mortgage customers, TSB will look to:

- Provide training to customer-facing colleagues to support money confident conversations about home energy efficiency and low carbon heating options
- Deliver awareness campaigns, tools, and partnerships to build our customers' climate confidence and understanding of the value and marketability impacts of undertaking improvements
- Leverage our mortgage broker network, through both industry and direct engagement, to increase our customers' awareness⁹

To amplify impact, TSB will also look to support:

- Cross-sectoral collaborations such as the Energy Efficiency Taskforce¹⁰ and its purpose of supporting a step change in the reduction of energy demand through accelerated delivery of energy efficiency across the UK. One of the Taskforce's priority areas is to increase consumer engagement in the delivery of existing and new initiatives on energy efficiency and clean heat.

⁹ For example, through use of the [Green Finance Institute's Broker's Handbook](#)

¹⁰ [Government announces team of leading experts to boost energy efficiency - GOV.UK \(www.gov.uk\)](#)

Fair and affordable finance

Once consumers are engaged in the need to make improvements to their homes, they require access to quality and reasonably priced parts and labour, together with fair and affordable finance options to fund the costs of installation.

TSB will look to:

- Develop products, propositions and partnerships for customers wishing to invest in energy efficiency and low-carbon heating improvements
- Signpost eligible customers to available grants and subsidies (including the Great British Insulation Scheme and the Boiler Upgrade Scheme)
- Engage with industry consultations and proposals such as the Green Finance Institute's Property Linked Finance Taskforce¹¹

Progress will be accelerated by:

- Advancement in technology and reduction in cost of materials and installation
- Government provision of targeted grants and subsidies, scaled depending on ability to pay, and delivered through simplified application processes
- Ensuring industry solutions do not limit homeowners' remortgaging options or create mortgage "climate" prisoners¹²



¹¹ [Property Linked Finance: Rising Consumer Demand for Energy Efficiency and the Need for Financial Innovation \(greenfinanceinstitute.co.uk\)](#)

¹² (a potential consequence if, for example, lending was to be limited to, or targeted at, homeowners with better EPC-rated properties).

Frictionless installation

Consumer up-take of retrofits and low-carbon technologies will also only happen at scale when the process is seamless and convenient, with availability of skilled tradespeople, reliable technology in all UK regions and friction points minimised.

TSB will look to:

- Develop products and propositions to support small business customers seeking to upskill and scale-up in energy efficient and low-carbon technologies
- Seek to leverage partnerships that enable the introduction of customers to trusted products, suppliers and installers

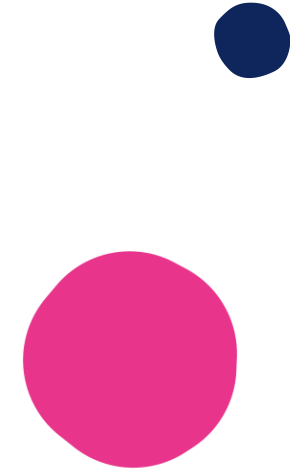


Further progress could be made by:

- Government and private sector collaboration in reskilling and retraining to address the skills gap, ensuring there is labour force of sufficient scale in the right trades and the right locations. This is a requirement to achieve installation objectives such as the government's target of 600,000 new heat pump installations per year by 2028
- Removal of other friction points, including minimal disruption to occupiers (with a particular consideration of vulnerable customers) and pragmatic approaches to planning permission (for example, for heat pumps or solar panels, depending on their location)

2. New housing built to net-zero standard

As well as retrofitting the UK's existing homes, newly-built homes must be built to net-zero standards; getting the design right from the outset is considerably cheaper than retrofitting later.¹³ As TSB does not specialise in lending to housing developers or for self-build, we have limited ability to impact and influence the design of new housing stock.



TSB will look to:

- Provide products to customers wishing to purchase new-build homes
- Support lending to homes built using modern methods of construction
- Continue to monitor the quality of new-build output via engagement with the New Homes Quality Board, and through physical inspections of all new build lending

Significant progress will however only be made by:

- Delivery of the Government's Future Homes Standard (due for introduction in 2025),¹⁴ and its ambition to build c300,000 new homes a year by the mid-2020s, as set out in its Heat and Buildings Strategy.¹⁵

¹³ [UK housing: Fit for the future? - Climate Change Committee \(theccc.org.uk\)](#)

¹⁴ [Ready for Zero - Evidence to inform the 2025 Future Homes Standard -Task Group Report FINAL- 280223- MID.RES.pdf \(cdn-website.com\)](#)

¹⁵ [HM Government - Heat and Buildings Strategy \(publishing.service.gov.uk\)](#)

3. Decarbonisation of the power grid

As stated by the independent Climate Change Committee (CCC),¹⁶ a decarbonised power system is the central requirement for achieving net zero. In October 2021, the Government committed to decarbonise the electricity supply by 2035.

TSB alone has no direct influence on the speed at which the grid is decarbonised, yet decarbonisation of the grid will have significant impact on the financed emissions attributed to TSB. Currently, EPC data (used to calculate our financed emissions) does not (among other limitations) accurately reflect emissions from homes on renewable tariffs. A consequence of grid decarbonisation will be a reduction in the emissions attributed to TSB's mortgage lending as data sources and methodologies are updated to reflect this achievement.



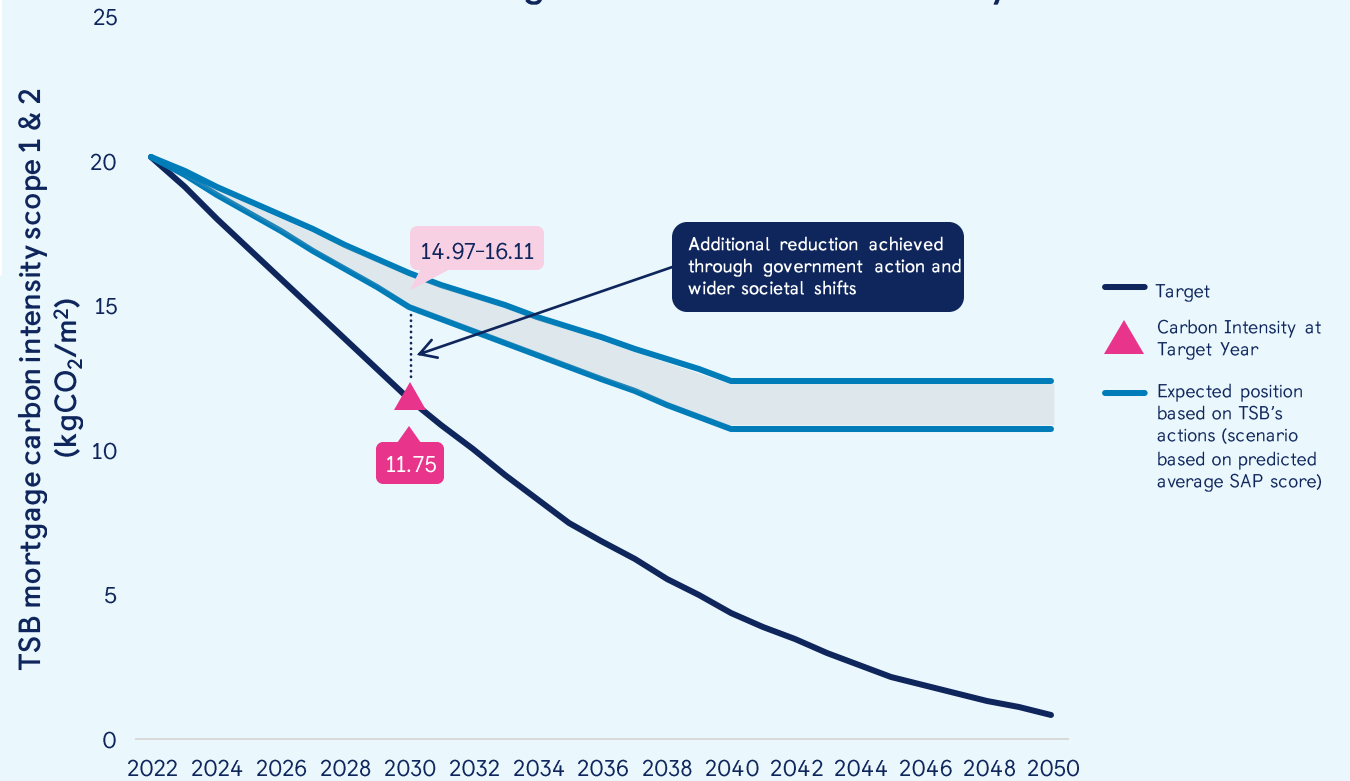
¹⁶ The Climate Change Committee is an independent, statutory body established under the Climate Change Act. ["Delivering a reliable decarbonised power system" - Climate Change Committee \(theccc.org.uk\)](https://www.theccc.org.uk)

Our intermediate target for 2030

	Absolute carbon emissions at 31/12/2022 (base year) ^{(b)(c)(d)}	Physical emissions intensity at 31/12/2022	Target physical emissions intensity at 31/12/2030	Percentage reduction in emissions intensity to 2030
Residential mortgages ^(a)	510,109	20.14 kgCO ₂ /m ²	11.75 kgCO ₂ /m ^{2(e)}	42%



TSB Target Year Emissions Intensity



Our intermediate target for 2030



- a) Our residential mortgage portfolio (which includes Core, Buy-to-Let and Whistletree loans) accounted for 88% of TSB's total lending and investment portfolio in 2022 and 84% of the financed emissions for this period and has therefore been prioritised in our first round of target setting.
- b) The carbon emissions of our residential mortgage portfolio have been estimated using the Partnership for Carbon Accounting Financials (PCAF) methodology.¹⁷ Where available, CO₂ emissions and floor area at property level have been obtained directly from the Energy Performance Certificate (EPC) as supplied by the qualified assessor. TSB has included emissions from expired EPCs that are more than ten years old and also a small number of EPCs issued after 31 December 2022 as we believe this more accurately reflects individual property emissions than using modelled or average data. Where EPCs were unavailable, estimations have been made using either postcode averages, or modelled data. When attributing emissions, loan-to-valuation adjustments have been applied to the total mortgage book to most accurately reflect the CO₂ emissions that TSB finances. Attribution has been calculated at property level by dividing the outstanding amount at 31 December 2022 by the indexed valuation at 31 December 2021 (or the indexed valuation at 31 December 2022 for properties without indexed valuation data at 31 December 2021).
- c) To ensure transparency in our disclosures, TSB also use the PCAF methodology to calculate a data quality (DQ) score for our financed emission calculations. Our 2022 residential mortgage emissions score was DQ 3.33. Further information on TSB's methodology and data can be found on [TSB.co.uk](https://www.tsb.co.uk).
- d) TSB appointed Ernst and Young LLP (EY) to provide limited independent assurance over our scope 3 financed (residential mortgage) emissions for the 12-month period ending 31 December 2022. Assurance has not been provided over any prior year scope 3 financed emission disclosures. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.¹⁸ A limited assurance report was issued and is available on [TSB.co.uk](https://www.tsb.co.uk). This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion.
- e) Our target has been calculated using the global and sector based International Energy Agency Below 2 degrees scenario (IEA ETP B2DS). This scenario limits global warming to 1.5°C by the end of the century. Our 2030 target is based on physical emissions intensity reduction, in terms of kgCO₂ per m², which allows us to measure progress in reducing our emissions regardless of the future size of our mortgage book. Our 2030 intermediate target forms part of our commitment to reduce the carbon emissions associated with our residential mortgage portfolio to net zero by 2050 or sooner. We do not currently neutralise our financed emissions through the purchasing of carbon credits; we will review our position in line with recommended best practice as we approach 2050.



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Legals and forward-looking statement

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