



INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS OF TSB BANKING GROUP PLC ON RESIDENTIAL MORTGAGES FINANCED EMISSIONS FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2022

This report is produced in accordance with the terms of our engagement letter dated 18th May 2023 for the purpose of reporting to the Directors of TSB Banking Group plc (the 'Bank') in connection with the selected sustainability metrics as defined within 'Appendix A' (the 'Subject Matter') for the reporting period ended 31st December 2022.

This report is made solely to the company's Directors, as a body, in accordance with our engagement letter dated 18th May 2023. Those terms permit disclosure on TSB's website, solely for the purpose of the Bank showing that it has obtained an independent assurance report in connection with the Subject Matter. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Directors as a body, for our examination, for this report, or for the opinions we have formed.

Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission.

Responsibilities of the company

As Directors of the Bank, you are responsible for the Subject Matter which is attached as Appendix A to this report. The Directors of the Bank remain solely responsible for presenting the Subject Matter in accordance with the narrative and accompanying notes (the 'Reporting Criteria') attached within 'Appendix B'.

Responsibilities of Ernst & Young LLP

It is our responsibility to provide a conclusion on the Subject Matter based on our examination. The narrative and accompanying notes referenced within Appendix B has been used as the Reporting Criteria against which to evaluate the measurement and presentation of the Subject Matter defined within Appendix A.

Our approach

We conducted our engagement in accordance with International Standard on Assurance Engagements (UK) 3000 (July 2020) *Assurance engagements other than audits or reviews of historical financial information* ("ISAE (UK) 3000 (July 2020)") as promulgated by the Financial Reporting Council (FRC). For the purpose of the engagement, we have been provided by the Directors with the Subject Matter.

In performing this engagement, we have applied International Standard on Quality Management (ISQM) 1 and the independence and other ethical requirements of the Institute of Chartered Accountants of England and Wales (ICAEW) Code of Ethics (which includes the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA)).

We have performed the procedures agreed with you and set out in our engagement letter dated 18th May 2023. Our work included, but was not limited to:

- ▶ Undertaking management interviews to form an understanding of the reporting process in relation to the Subject Matter;

- ▶ Performing walkthroughs to gain an understanding of the Bank's systems and procedures in place to capture, collate, aggregate, validate and source data required to generate the Subject Matter;
- ▶ Identifying the risk of material misstatement for each in-scope Sustainability Metric and designed analytical or substantive procedures to obtain sufficient appropriate evidence to form our conclusion over the Subject Matter;
- ▶ Performed analytical procedures over the Subject Matter to identify potential anomalies within the Subject Matter and obtain Management explanations;
- ▶ On a sample basis, executed test of details to substantiate the completeness and accuracy of the calculation as defined by the Reporting Criteria and reconcile Information Provided by the Entity (IPE) to underlying and source data;
- ▶ Read the supporting narrative to the Subject Matter to confirm that it has been reported in a fair, balanced and understandable manner when compared to the Reporting Criteria; and
- ▶ Obtained management representations.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on the Subject Matter. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Inherent limitations

Our conclusion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate. Our examination excludes audit procedures such as verification of all assets, liabilities and transactions and is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the information.

Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the accompanying Subject Matter as defined in Appendix A is not fairly stated, in all material respects, based on the Reporting Criteria.

Ernst & Young LLP

Ernst & Young LLP

London, United Kingdom

26th May 2023

Appendix A: Subject Matter Information

The metrics listed below constitute the Subject Matter within the scope of this report.

Scope 3 Residential Mortgages – Financed Emissions	Metric	Assured Value
	• Absolute Emissions (tCO ₂ e) 12-month period ending 31 December 2022.	510,109
	• Physical Intensity (kgCO ₂ e/m ²) 12-month period ending 31 December 2022.	20.14
	• PCAF Data Quality Score (DQ) 12-month period ending 31 December 2022.	3.33

Appendix B: Reporting Criteria

Below is the Residential Mortgages Financed Emissions methodology ('Reporting Criteria') as agreed by the Directors of the Bank.

Emissions baseline preparation

- TSB use the Partnership for Carbon Accounting Financials (PCAF) methodology to calculate emissions relating to loans and investments.
- PCAF is a global alliance of financial institutions that work together to develop and implement a consistent global approach to measuring and reporting emissions associated with their loans and investments. TSB are active members of PCAF and work with industry peers to identify best practice and opportunities to improve the coverage and quality of financed emissions data.
- To provide adequate data coverage to calculate our emissions baseline, TSB has supplemented data sourced at loan origination with external data from Landmark Information Group Ltd (Landmark). Landmark is a provider of property and land data and sources up to date Energy Performance Certificate (EPC) ratings, floor area and emissions profiles at property level, which are used to ensure accuracy in our calculations.
- CO_{2e} emissions and floor area at property level have been obtained directly from the EPC certificate as supplied by the qualified Assessor. EPCs are calculated using the Standard Assessment Procedure (SAP) model. EPC certificates are valid for ten years, but TSB have included emissions data taken from expired EPCs that are more than ten years old as well as a small number of EPCs issued after 31/12/2022 as TSB believe this more accurately reflects individual property emissions than using modelled or average data. Adjustments have not been made for any assumed energy efficiency improvements to properties after this date.
- TSB identified data anomalies in the emissions data for some EPCs issued pre-1 October 2008. Modelled data has been used to calculate emissions for these properties.
- Where Latest EPC ratings were unavailable, estimations have been made using either postcode averages or modelled data
- Emissions were calculated on a 'best data available' basis, using the following hierarchy:
 - CO_{2e} emissions and floor area taken from latest actual EPC
 - Post Code Average CO_{2e} emissions and estimated floor area.
 - Modelled CO_{2e} emissions and estimated floor area
- Floor area has been estimated for 24% of the portfolio where Latest EPC data was not available. Estimations have been made using a proxy model, based on property region and latest indexed valuation averages from the TSB book with confirmed EPC data..
- TSB mortgage balances include further advances. As such, loan to valuation adjustments have been applied to the total mortgage book in order 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). For a small number (c30) properties, only 2019 valuations were available and so these have been used to calculate the attribution factor.
- This attribution factor has then been multiplied by the CO₂ emissions data for the property to calculate TSB's share of emissions, using the following formula:

$$\text{Financed emissions} = \sum \text{attribution factor}_b \times \text{building emissions}_b$$

(with b = building)

Data quality

- To ensure transparency in our disclosures, TSB also use the PCAF methodology to calculate a data quality (DQ) score for our financed emission calculations.
- Under PCAF methodology, a DQ score can be calculated between 1 and 5, where 1 is the highest data quality and 5 is the lowest. This data quality score is intended to highlight the use of estimations used within the calculations and allow TSB to monitor progress on improving data quality and coverage in the future.