

Building a sustainable future

Lloyds Banking Group
Environmental Sustainability Report 2022

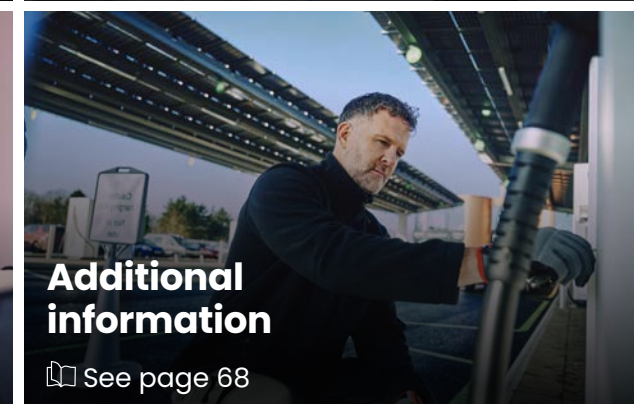
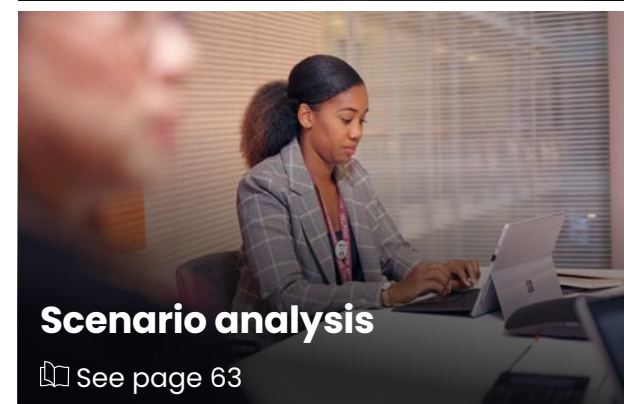


At Lloyds Banking Group, our purpose is Helping Britain Prosper. As the UK's largest financial services provider with more than 26 million customers, we have an important role to play in creating a more sustainable and inclusive future for people and businesses, by shaping finance as a force for good.

This report covers the Group's progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures, along with our approach to addressing the broader environmental and associated governance areas.

We have structured our report into these six sections.

Inside this report



Alongside TCFD disclosures, the report includes our Group climate transition plan, which is informed by emerging guidance. Our climate transition plan complements the climate action plan released by Scottish Widows, now covering transition activity across the Group.

We continue to gather pace in understanding the risks and opportunities that climate change presents for our business and our customers. The Strategy, metrics and targets section provides details on how the Group is supporting sectors to transition to net zero. Our 2022 report provides an update on our progress towards our ambitions, along with the activities we are undertaking to help our customers and stakeholders. It also sets out the work we are doing to better understand and manage our climate-related risks.

For more information on our material ESG areas see our [ESG performance review 2022](#)

Scope of this report

The data and examples in this report reflect activities undertaken during the 2022 financial year (1 January to 31 December 2022) and, where relevant to performance, refers to activities and events before and after this period. The report includes information about Lloyds Banking Group and its subsidiaries' performance.

Please see the disclaimer on page 75 for further information about the basis on which this document, and the information contained within it (including forward looking statements), has been prepared.

Further information about our ESG-related policies, sector positions, performance ratings and benchmarks can be found online at our [Responsible Business downloads centre](#)

How we describe ourselves in this report

Within this report, reference to the Group covers our three divisions: Retail, Commercial banking and Insurance, Pensions and Investments. Bank is limited to our Retail and Commercial banking operations. Scottish Widows relates to our Insurance, Pensions and Investment activities.

Additional links

[Annual report and accounts 2022](#)



[Social sustainability report 2022](#)



[ESG performance review 2022](#)

[Scottish Widows TCFD report](#)

[Scottish Widows climate action plan](#)

[ESG reporting framework index](#)

SUSTAINABLE DEVELOPMENT GOALS

As we become a more purpose-driven organisation, we have an opportunity to play our part in helping the UK to meet the targets set by the UN Sustainable Development Goals (SDG). They provide a common framework for us to identify how we can play a more active role in the sustainable development of UK society and help us frame how we use our operating model, scale, resources and skillsets to respond to some of the biggest societal challenges faced by the UK today.

When developing our purpose and strategic focus areas, we considered the SDGs with the highest materiality to our business and sector. We reviewed our commercial exposure considering both the potential for positive impact as well as risk mitigation, and considered the spheres of influence that the Group may feasibly have an impact on, as well as those of highest impact to our key stakeholders.

Throughout this report and our social sustainability report 2022, we have demonstrated how our activities support the achievement of specific SDG sub-targets through selected examples and case studies. We also include selected non-financial performance indicators in the Group balanced scorecard that support the achievement of our ambitions, focus areas and the SDGs (see page 32 of the 2022 Lloyds Banking Group annual report and accounts).



Tackling the climate crisis goes hand in hand with delivering our purpose of **Helping Britain Prosper**

We serve millions of people and businesses across the UK every day and we can make a real difference to supporting – and accelerating – the UK’s transition to a low carbon future. Supporting the transition to a low carbon economy is core to our Group strategy. This is just one of the ways we will grow our business profitably and responsibly.

By focussing on the areas where we can have the biggest impact, like transitioning our energy and transport sectors and greening the built environment, we will unlock the growth opportunities of a low carbon economy and deliver value and opportunity for people and businesses across the UK.

This year’s report

Following last year’s first standalone climate report, I’m pleased to share our 2022 Environmental Sustainability Report. Based on the Task Force on Climate-related Financial Disclosures’ recommendations, the report details our climate strategy and the progress we are making towards our sustainability ambitions, and how we will continue to embed climate considerations across our business. We also consider our response to emerging issues like nature. This year’s report has evolved to include our first Group climate transition plan, covering our bank financed emissions, supply chain and operational emissions, and an update on the Scottish Widows climate action plan.



The climate crisis is one of the most pressing challenges facing a generation of leaders, and it is a huge part of what drives me and our wider leadership team. We all feel a responsibility to ensure that we leave a positive legacy for the next generation of leaders on tackling climate change.

Charlie Nunn
Group Chief Executive



CEO statement continued

Building a sustainable future

We have made important strides on our journey to net zero this year. We are delivering on our strategic financing targets, ensuring more of our lending is covered by stretching climate targets and investing in our people to build skills and capabilities across our business.

Building on our net zero ambitions for financed and operational emissions, we have set out a new Group ambition to reduce the emissions from our suppliers by at least 50 per cent by 2030, on the path to net zero by 2050 or sooner. In line with our strategy, over the past 12 months, we have provided over £2.1 billion of funding to electric and plug-in hybrid vehicles and delivered £3.5 billion for green mortgages, helping to drive growth in these sectors. We have also provided £7.9 billion to corporate and institutional customers over the past 12 months to support them as they transition. Through Scottish Widows we have also invested £11.7 billion in climate aware strategies over the past year.

As a founding member of the Net Zero Banking Alliance, we developed additional 2030 emissions reduction targets, covering some of the UK’s hardest to abate and most material sectors including homes, transport and energy. We have acted to further embed climate considerations into our decision-making and behaviours. In October, we took a leading decision to put the weight of our power sector finance behind clean and renewable energy and shared that we will no longer provide direct financing to new greenfield oil and gas developments. And we have focussed on hiring and building the skillsets we need to effectively tackle the climate crisis across our business and create new opportunities for growth.

Looking ahead

Our ambition is to be the partner of choice for people and businesses as we all shift to a lower carbon economy. Some of my most exciting and engaging meetings are with clients – housebuilders, car makers, farmers – right across the country who are at the forefront of making the transition a reality. We are right there with them providing the funding, convening experts and learning together. And by engaging with firms across the financial services sector, we are continuing to further the UK’s climate leadership through our involvement in organisations like the Sustainable Markets Initiative.

In line with our purpose and strategy, we firmly believe that supporting the transition to a low carbon economy will create new opportunities for growth and investment in SMEs, jobs, and communities across the UK for generations to come.

After a year of immense change and disruption, it’s never been clearer that we must bring people with us on the journey to net zero. This is one of the most pressing challenges facing a generation of leaders and a huge part of what drives me and our wider leadership team. We all feel a responsibility to ensure we leave a positive legacy for the next generation of leaders on tackling climate change. 2023 is set to be another big year for us in our net zero journey, as we move forward with our climate transition plan, set additional sector-specific emissions reduction targets and further refine our approach and strategy for nature.

We are honest though, that as much as we can achieve through our own actions, we cannot achieve our ambitions alone. Addressing the dual climate and nature crises is a universal endeavour and our ability to deliver on our ambitions will depend on developments in technology and public policy, as well as the willingness of individuals and businesses to embrace a more sustainable future. In practice, this will require much greater collaboration across the public and private sectors, working with national and local government to unlock progress in our hardest to abate sectors like greening the built environment and agriculture.

We are connected to almost every community in the UK and are committed to partnering with others to use our scale and knowledge of the UK economy to unlock progress towards net zero. We believe that creating a more sustainable and inclusive future for people and businesses is how we will Help Britain Prosper.



Charlie Nunn
 Group Chief Executive



Our progress against TCFD recommendations

We have been continually making progress against the TCFD recommendations and enhancing our climate-related financial disclosures since our 2018 annual report and accounts.

We comply with the FCA’s Listing Rule 9.8.6R(8) and make disclosures consistent with the 2021 TCFD recommendations and recommended disclosures across all four of the TCFD pillars: **Strategy**; **Governance**; **Risk Management**; and **Metrics and Targets**.

We will continue to assess and develop our disclosures against the TCFD recommendations and recommended disclosures in 2023, considering relevant TCFD guidance and materials along with evolving best practice.

The table below also provides an overview of our disclosure progress and priorities for 2023.

In addition to the compliance below, entities within our Insurance, Pensions and Investments business, which are incorporated as part of Scottish Widows Group, are required to report in compliance with FCA ESG Sourcebook (set out via FCA PS21/24) reporting requirements for the period ending 31 December 2022. This additional compliance will be met through the publication of a separate Scottish Widows TCFD report, which is due to be published by 30 June 2023.

Progress against TCFD recommendations				
Pillar	Recommended disclosures	Reference	Summary of progress	Focus areas 2023
Strategy Recommendation Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy and financial planning where such information is material.	A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Pages 13 to 20	<ul style="list-style-type: none"> Defined the key climate-related risks and opportunities across the Group and identified the potential time horizons over which these may arise 	<ul style="list-style-type: none"> Further quantification and insights of climate-related risks and opportunities
	B. Describe the impact of climate-related risks and opportunities on the organisation’s business, strategy and financial planning.	Pages 13 to 20	<ul style="list-style-type: none"> The Group’s financial statements consider the impact of climate-related risks on our financial position and performance Continue to embed climate risk into our financial planning process. Climate considerations are factored into the economic base case, and financed emissions ambitions are considered as part of the forecasting process 	<ul style="list-style-type: none"> Net zero targets and strategies will be developed for some of our remaining high-emitting sectors Expand the balance sheet assets covered by the forecasting process along with Partnership for Carbon Accounting Financials (PCAF) methodology updates Embed monitoring of sector targets as reported in our Group climate transition plan into the reporting process so that climate considerations form part of the Group’s regular decision making
	C. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Page 14 Pages 63 to 67	<ul style="list-style-type: none"> Climate scenario analysis performed for some of our businesses most exposed to climate risk, for example, physical risks from flooding on our mortgage portfolio and transition risk for our commercial portfolio The insights from this scenario analysis activity have been used to support the Group’s measurement of Expected Credit Loss (ECL) and Internal Capital Adequacy Assessment Process (ICAAP) Continue to monitor our exposure to high-risk sectors and proposed actions to support transition Scottish Widows Group (SWG) is developing a model to inform business decisions. Further details of this model are to be published in the 2022 SWG TCFD report 	<ul style="list-style-type: none"> Scenario analysis will be used to further support forecasts and plans. We will compare scenario modelling outputs generated across a variety of methods to inform our strategic approach Specific areas of development include, understanding the impacts on some of our highest emitting sectors such as agriculture, as well as integrating scenario analysis insights into the credit decision making process
Governance Recommendation Disclose the organisation’s governance around climate-related risks and opportunities.	A. Describe the Board’s oversight of climate-related risks and opportunities.	Pages 50 to 53	<ul style="list-style-type: none"> Our governance structure provides clear oversight and ownership of the Group’s environmental sustainability strategy and management of climate risk at the Board and executive levels The Board is engaged on a regular basis on our sustainability agenda 	<ul style="list-style-type: none"> In 2023, the Board will consider our response to nature along with approval of sector targets for some of our remaining sectors Monitoring of our progress against targets and ambitions
	B. Describe management’s role in assessing and managing climate-related risks and opportunities.	Pages 50 to 53 Page 55	<ul style="list-style-type: none"> The Group Net Zero Committee provides direction and oversight of the Group’s environmental sustainability strategy, supported by climate and sustainability steering groups or committees The Group Risk Committee provides oversight of climate risk Key Committee oversight in 2022 included development of sector targets and supply chain ambition 	

Our progress against TCFD recommendations
 continued

Progress against TCFD recommendations continued				
Pillar	Recommended disclosures	Reference	Summary of progress	Focus areas 2023
Risk Management Recommendation Disclose how the organisation identifies, assesses, and manages climate-related risks.	A. Describe the organisation's processes for identifying and assessing climate-related risks.	Pages 16 to 17	<ul style="list-style-type: none"> Assessment of climate risk has been undertaken to understand the key risks across the Group Ongoing development of climate risk assessment tools and methodologies, including a qualitative climate risk assessment tool for commercial clients 	<ul style="list-style-type: none"> Incorporation of scenario analysis to inform climate risk assessment, alongside further refinement to evolving processes across the Group
	B. Describe the organisation's processes for managing climate-related risks.	Pages 57 to 62	<ul style="list-style-type: none"> Consideration of climate risk incorporated within our existing risk management processes, embedding relevant controls to mitigate these risks Key risks which incorporate climate include credit risk, insurance underwriting, conduct risk and operational resilience 	<ul style="list-style-type: none"> Further embedding of controls across identified climate-related risks Enhancement to appropriate risk appetite to mitigate key climate risks across the Group
	C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Pages 16 to 17 Pages 57 to 62	<ul style="list-style-type: none"> Climate risk is embedded into our Enterprise Risk Management Framework, through consideration of climate risk as its own principal risk, and integration into other principal risks materially impacted The Group climate risk policy provides an overarching framework for the management of climate risks across the Group 	<ul style="list-style-type: none"> Further enhancements to climate risk reporting to monitor the key climate risks across the Group
Metrics and Targets Recommendation Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Pages 9 to 12 Pages 24 to 48	<ul style="list-style-type: none"> Progress monitored against our net zero ambitions, including measures related to our financed emissions, own operations emissions, supply chain emissions and sustainable finance 	<ul style="list-style-type: none"> Enhance metrics to monitor our progress against our targets and ambitions Explore methodology in relation to nature
	B. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Pages 11 to 12 Pages 24 to 48	<ul style="list-style-type: none"> Disclosed our Scope 1, 2 and 3 emissions for our own operations and supply chain, continue to develop our approach to calculating financed emissions, now updated to period ended 2020. Our operational emissions (Scope 1, 2 and selected Scope 3) are disclosed within the annual report and accounts (see page 36) Scottish Widows will publish product level TCFD reporting in their 2022 report, offering an additional level of granularity to customers 	<ul style="list-style-type: none"> Extend our asset coverage from a financed emissions perspective to cover additional business areas
	C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Page 9 to 12 Pages 24 to 48	<ul style="list-style-type: none"> We continue to have targets in relation to our financed emissions and own operations Our October 2022 Net Zero Activity Update detailed our targets in relation to seven of our highest emitting carbon sectors (covering the bank), along with our new supply chain ambition. This report provides an update on how we are progressing against these areas compared to their emissions pathway 	<ul style="list-style-type: none"> We will develop targets for other high carbon sectors for release in 2024, further details included within the Group climate transition plan.

Strategy, metrics and targets

In this section

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Our environmental sustainability strategy

As a Group that supports many sectors of our economy through our lending, investments, products and services, we recognise our role in helping to enable the transition to a low carbon future.

The UK Climate Change Committee (CCC) recommendations for the UK's Sixth Carbon Budget require sustainability-related investments in the UK to reach £50 billion annually by 2030. In supporting the transition, we will be able to capitalise on new opportunities and future growth, creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Transitioning to net zero is a universal endeavour and will depend on government, industry and wider society acting together, alongside significant technological advancements in high-emitting sectors. We will actively manage our climate risks and hold ourselves to account to do all we can in how we run our own business.

Our priority is to be a constructive partner in the transition and support our clients throughout their transition journeys. Where we don't see the level of commitment or progress we believe is necessary to keep key climate ambitions within reach, we reserve the right to change or exit those relationships.

Like everyone working to support the transition, we are constantly refining our data and approach, as we look to embed sustainability across our business. There are a lot of unknowns in the transition to net zero, but we can't let these be a barrier to ambition.

Our approach is a core part of our business strategy, with key sustainability objectives aligned to our priorities of Grow, Focus and Change. We have set ambitions covering our Bank and Scottish Widows financed emissions and have developed sector-specific targets for our Bank financed emissions. We have also set ambitions covering our supply chain and own operations. In order to deliver against these ambitions and targets, we have identified key priorities as set out to the right.

Environmental sustainability strategy			
<div><h2>Our purpose is Helping Britain Prosper</h2><p>We Help Britain Prosper by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.</p></div>		<p>Tackling the climate crisis through supporting the transition to a low carbon economy is core to our Group strategy and underpins our four focus areas to deliver on our purpose:</p> <div><div><ul style="list-style-type: none">• Creating a more inclusive future• Improving access to quality housing</div><div><ul style="list-style-type: none">• Enabling regional development• Greening the built environment</div></div>	
Our Group strategy	Grow	Focus	Change
See our annual report and accounts 2022	Drive revenue growth and diversification	Strengthen cost and capital efficiency	Maximise the potential of people, technology and data
Climate strategy objectives	Capitalising on the opportunities of the transition.	Managing our climate-related risks, supply chain and operations.	Embedding sustainability in all that we do.
Ambitions and targets	<ul style="list-style-type: none">• 2030 and 2050 ambitions for: Bank and Scottish Widows financed emissions, own operations and supply chain emissions• 2024 targets for Bank sustainable lending targets• 2025 target for Scottish Widows investment in climate-aware strategies		
Priorities to deliver	<ul style="list-style-type: none">• Growth through green lending, investments, products and services• Use our voice and collaborate with others to drive wider action	<ul style="list-style-type: none">• Exiting the most damaging activities, identifying and managing our risks• Net zero operations and supply chain	<ul style="list-style-type: none">• Educate and empower our people to support us to deliver• Use climate data and cross-Group approaches to support UK businesses and our own transition
Reporting output	<ul style="list-style-type: none">• Environmental sustainability report		

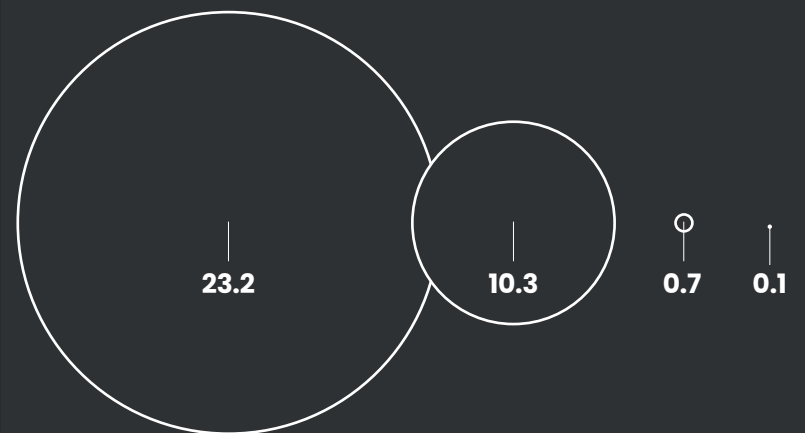
Our emission reduction ambitions and targets

We have set several ambitions across our Group to support the decarbonisation of our business in line with limiting global warming to 1.5°C, including our new supply chain ambition which was developed in 2022.

Breakdown of Group’s emissions (MtCO₂e) ▼

What this looks like for the Group

The scale of our current emissions varies across different areas of the business.



Bank financed emissions (2020)	23.2 MtCO ₂ e
Scottish Widows financed emissions (2020)	10.3 MtCO ₂ e
Supply chain emissions (2021/2022)	0.7 MtCO ₂ e
Own operation emissions (2019/2020)	0.1 MtCO ₂ e

Based on 2020 data available for Bank and Scottish Widows financed emissions Scope 1 and 2 emissions only. 2021/2022 period end data for supply chain emissions provided as this is the baseline year see page 72 for methodology. 2019/2020 period end data for own operations includes Scope 1, 2 and 3 categories and is reported on a market basis. For basis of reporting see our [Responsible Business website](#).



Bank financed emissions

Work with customers, government and the market to help reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050¹ or sooner.

Reduce the carbon emissions we finance by more than 50% by 2030

For more information
Bank financed emissions see page 11

¹ From a 2018 Baseline.



Supply chain

Reduce the carbon emissions we generate through our supply chain by 50% by 2030 on the path to net zero by 2050 or sooner.⁴

50%

Reduction of carbon emissions we generate through our supply chain by 2030

⁴ From a 2021/2022 baseline.

For more information
Supply chain emissions see page 12



Scottish Widows financed emissions

Target halving the carbon footprint² of our investments by 2030 on the path to net zero by 2050.³

Halve the carbon footprint of our investments by 2030

For more information
SW financed emissions see page 11

² Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment.

³ From a 2019 baseline.



Own operations

We will achieve net zero carbon operations by 2030 and reduce our direct carbon emissions by at least 75%, while also reducing energy consumption across our operations by 50%, and limiting travel-related carbon emissions by 50% compared to a pre-COVID 19 baseline.⁵

Net Zero

We will achieve net zero carbon operations by 2030 and reduce our direct carbon emissions by at least 75%

For more information
Own operations emissions see page 12

⁵ All from a 2018/2019 baseline.

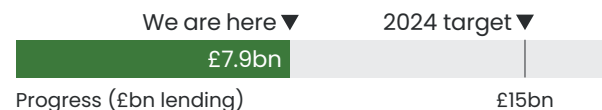
Our sustainable lending and investment targets

Grow

We set sustainable lending and investment targets in several areas and have made progress against each throughout the year.

Commercial banking

£15 billion sustainable finance for corporate and institutional customers¹ by 2024



Progress (£bn lending)

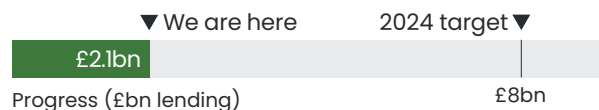
¹ Corporate and institutional customers (customers with a turnover >£100m). Includes clean growth finance initiative, Commercial Real Estate green lending, renewable energy financing, sustainability linked loans and green and social bond facilitation.

£7.9bn

achieved in sustainable finance for corporate and institutional customers in 2022

Motor

£8 billion financing for EV and plug-in hybrid electric vehicles by 2024²



Progress (£bn lending)

² Includes new lending advances for Black Horse and operating leases for Lex Autolease (gross); includes cars and vans.

£2.1bn

achieved in financing for EV and plug-in hybrid electric vehicles in 2022

Green mortgage lending

£10 billion green mortgage lending by 2024³



Progress (£bn lending)

³ New mortgage lending on new and existing residential property that meets an Energy Performance Certificate (EPC) rating of B or higher.

⁴ Covers the period from January 2022 to September 2022.

£3.5bn

achieved in green mortgage lending in 2022⁴

Scottish Widows

£20–£25 billion discretionary investment in climate-aware⁵ strategies by 2025



Progress (£bn investment)

⁵ We are working with our strategic fund management partners BlackRock and Schroders to develop and refine a range of funds that have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive and/or developing climate solutions. £17.5 billion invested over target lifetime, with £11.7bn invested in 2022.

£17.5bn

achieved in discretionary investment in climate-aware strategies by the end of 2022⁵

Our emissions update

Based on 2020 total Group assets of £871.3 billion, approximately 82 per cent of our balance sheet is in scope of Partnership for Carbon Accounting Financials (PCAF) methodology. Cash is represented in our coverage as zero emissions, noting the PCAF standard remains silent on treatment. For details of our lending to sectors exposed to increased climate risk see page 73.

The table shows the Group’s estimated absolute financed emissions and the physical emissions intensity for baseline years (2018 for Banking Emissions and 2019 for Scottish Widows) along with 2020 emissions data.

Our Scope 3 financed emissions are calculated from the Scope 1 and 2 emissions generated from our investments or lending. Scope 3 (value chain) emissions are also calculated and reported separately for certain sectors, aligning to the PCAF standard phased approach. We continue to refine our estimates of financed emissions as we enhance our understanding, calculation methodologies and data.

- 1
- Oil and gas Scope 3 estimates reflect the scope of the oil and gas sector target, based on drawn lending for primary sector clients in extraction, refining and transport via pipeline, including commodities trading arms of supermajor oil and gas clients, and not including support services.
- 2
- Oil and gas economic emission intensity is Scope 1 and 2 only. Including Scope 3 Oil and Gas economic emission intensity is 4.4 MtCO₂e/£bn in 2019 and 5.6 MtCO₂e/£bn in 2020.
- 3
- The baseline and subsequent years have been restated. Financed emissions are shown including grid decarbonisation and including unregulated emissions (appliances and cooking). The values for Retail Homes financed emission including grid decarbonisation and excluding unregulated emissions are 2018 5.5 MtCO₂/yr (full emissions of 10.8 MtCO₂/yr), 2019 5.1 MtCO₂/yr (full emissions 10.1 MtCO₂/yr) and 2020 4.93MtCO₂/yr (full emissions of 9.7 MtCO₂/yr).
- 4
- 2020 emissions calculation covers 100 per cent of in-scope UK mortgages. Uses EPC emissions estimates for c.66 per cent of properties. Where EPCs are unknown, the average emissions intensity of properties is calculated based on internal property archetypes.
- 5
- The baseline and subsequent years are restated to reflect an increase in scope to include HGVs. This has resulted in a 0.4 MtCO₂e increase in baseline 2018 reported emissions compared to figures previously published. Emissions calculation covers 89 per cent of motor vehicle loans and operating lease assets in-scope. For further detail see footnote 5 on page 28.
- 6
- Scope 3 emissions do not form part of Scottish Widows emissions reduction ambition.

Group financed emissions

Bank financed emissions

2018

2019

2020

Financed emissions (MtCO₂e)

Physical emissions intensity

Economic emissions intensity (MtCO₂e/£bn)

Financed emissions (MtCO₂e)

Physical emissions intensity

Economic emissions intensity (MtCO₂e/£bn)

Financed emissions (MtCO₂e)

Physical emissions intensity

Economic emissions intensity (MtCO₂e/£bn)

Scope 1 and 2

PCAF data quality score

Scope 1 and 2

PCAF data quality score

Scope 1 and 2

PCAF data quality score

Scope 3

PCAF data quality score

Scope 3

PCAF data quality score

Scope 3

PCAF data quality score

Oil and gas

Power generation

Automotive (OEMs)

Transport – aviation

UK residential mortgages^{3,4}

Motor⁵

Bank financed emissions with NZBA target

Commercial banking without NZBA targets

Total bank financed emissions

–

–

–

–

6.4

3.6

10.1

18.5

28.6

–

–

–

–

3.9

2.2

3.8

4.1

3.9

–

–

–

–

–

130gCO₂e/
km (cars)
172gCO₂e/
km (vans)

–

–

–

–

–

–

–

–

0.02

0.21

0.03

0.16

0.07

0.8

0.4

0.1

0.1

5.9

3.5

10.9

14.1

24.9

1.7

2.6

1.0

1.6

3.7

2.1

3.6

4.4

3.8

7.0¹

–

–

–

–

–

7.0

–

7.0

4.0

–

–

–

–

–

4.0

–

4.0

–

–

–

918gCO₂/
rtk

–

130gCO₂e/
km (cars)
169gCO₂e/
km (vans)

–

–

–

0.44²

0.72

0.03

1.05

0.02

0.20

0.03

0.14

0.06

0.8

0.3

0.1

0.1

5.6

3.2

10.1

13.1

23.2

1.6

3.0

1.0

1.3

3.7

2.2

3.5

4.6

3.8

6.7¹

–

–

–

–

–

6.7

–

6.7

4.0

–

–

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–

–

4.0

–

4.0

–

192gCO₂e/
kWh

217gCO₂e/
vkm

1596gCO₂/
rtk

46.5
kgCO₂e/
m²

130gCO₂e/
km (cars)
168gCO₂e/
km (vans)

–

–

–

0.58²

0.54

0.03

0.51

0.02

0.18

0.03

0.13

0.06

–

–

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–

–

–

–

–

–

9.1

2.2

32.4

3.0

–

97.6

0.4

2.1

1.2

3.0

–

81.9

0.3

5.0

–

–

–

67.5

0.5

5.0

–

–

–

194.7

10.3

2.4

33.6

3.0

–

97.9

33.5

–

40.3

–

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Scottish Widows financed emissions

2018

2019

2020

Policyholder

Listed equity and corporate bonds⁶

Shareholder

Listed equity and corporate bonds⁶

Business loans and unlisted equity

Project finance

Total Scottish Widows financed emissions

Total Group financed emissions

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Further details on the measurement basis for financed emissions for Bank and Scottish Widows is found in the Additional Information section under methodology.

Our emissions update continued



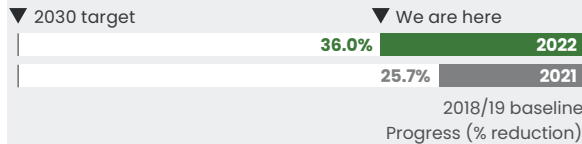
Our own operations progress

Reducing the environmental impact of our own operations is a key part of our sustainability strategy. We're working towards an ambitious set of commitments to change the way we operate as a business and help to accelerate our plans to tackle climate change.

Operational climate ambition and targets⁶

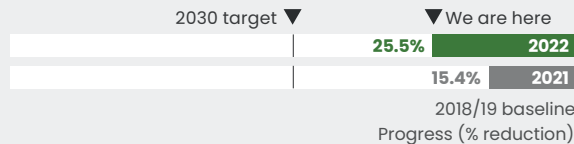
Direct carbon emissions¹

Net zero carbon operations by 2030



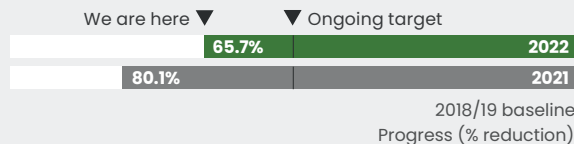
Energy consumption²

Reduce our total energy consumption by 50% by 2030



Travel emissions³

Maintain travel carbon emissions below 50% of pre-COVID-19 levels



In 2021, we launched an ambition to achieve net zero carbon emissions across Scope 1 and 2 by 2030, while at the same time we launched targets to halve our energy consumption and maintain travel-related carbon emissions from business travel and commuting below 50 per cent of a pre-COVID-19 baseline.

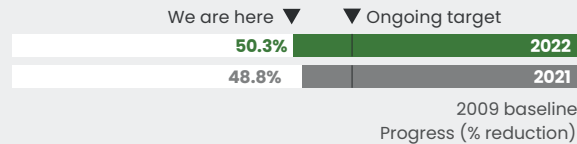
We have also maintained our legacy water and waste reduction commitments.

We're making strong progress against our other targets, despite an increase in commuting and business travel-related carbon emissions driven by higher office utilisation compared to the previous year.

We have also exceeded our water reduction target for the second consecutive year, and we will be reviewing our water efficiency pledge in 2023.

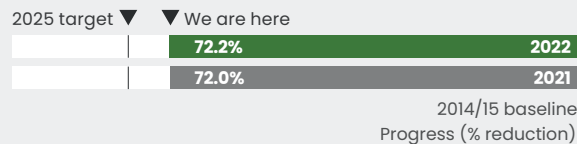
Water consumption⁴

Reduce water consumption by 40% by 2030



Operational waste⁵

Reduce our operational waste by 80% by 2025



- 1 Includes scope 1 and 2 emissions, market based approach for electricity scope 2.
- 2 Includes electricity and gas usage across our full operational estate.
- 3 Includes business travel (covering flights, car journeys, hotel stays, taxis, buses and underground/overground rail trips) and employee commuting, company cars and mobile branches with WTT.
- 4 Includes water consumption across our full operational estate.
- 5 Includes general waste, plastics, mixed recycling, food waste and confidential paper, as well as lower-volume waste such as glass and wood.
- 6 The methodology to derive reported Scope 1, 2 and 3 emissions is provided in the **Lloyds Banking Group Reporting Criteria Statement**



Our supply chain ambition⁷

Launched in October 2022, we have committed to reduce our supply chain emissions by at least 50% by 2030 on the path to net zero by 2050. The initial focus has been on engaging 123 suppliers, which we estimate contribute over 80 per cent⁸ of our supply chain carbon emissions.

⁷ From a 2021/2022 baseline.

⁸ Based on calculated emissions from addressable spend with our suppliers in the periods October 2019 to September 2020 and October 2020 to September 2021.

Scope 3 supply chain carbon emissions (tCO₂e)

Scope 3 emissions by GHG protocol category	Baseline/ Current year 2021/2022
Category 1	
Purchased goods and services	612,806
Category 2	
Capital goods	71,535
Category 4	
Upstream transportation and distribution	63,068
Total	747,409

More information on our emissions methodology, targets and metrics

Financed emissions, own operations and supply chain
See Methodology, pages 69 to 72

Targets and metrics
See:
Bank sectors on pages 28 to 37
Scottish Widows on pages 38 to 42
Own operations on pages 43 to 46
Supply chain on pages 47 to 48

Offsetting approach to meet targets and ambitions

Net zero strategies should prioritise carbon reduction, ahead of considering the use of carbon credits to remove any residual emissions. Where carbon credits are necessary, they can be an important tool in combating climate change if used responsibly.

Use of carbon credits in our financed emissions

Our financed emissions capture the emissions attributed to the Group from our lending and investment activities. We do not currently plan to use carbon credits to offset our financed emissions and we will monitor and contribute to emerging industry standards in this area as they develop. However, we will engage with our clients to encourage them to develop their own net zero plans, which may involve them using carbon credits for offsetting residual emissions for some of their activity, where applicable and in line with science.

Use of carbon credits in our own operations

Our priority as a Group remains focused on reducing our emissions in a responsible way, before considering the use of carbon credits to offset emissions from our own operations. We have committed to achieve net zero carbon operations by 2030, reducing our direct Scope 1 and 2 emissions by at least 75 per cent (compared to 2018/19 levels). In 2030, we will purchase carbon credits to offset the remainder of our direct emissions. We will use certified neutralisation carbon credits from high-quality carbon removal projects.

Use of carbon credits in our supply chain

We have committed to reduce the carbon emissions generated through our supply chain by at least 50 per cent by 2030 on the path to net zero by 2050 versus our 2021/2022 baseline. As part of our engagement strategy, we will encourage our suppliers to develop their own net zero plans, which may involve them using carbon credits for offsetting residual emissions for some of their activity, where applicable and in line with science.

Our climate risks and opportunities

We recognise the importance of embedding climate-related risks and opportunities into our Group-wide strategy and business operations. Our ambitions cannot be achieved without significant government and regulatory intervention enabling an effective economic infrastructure and we will engage with government and market stakeholders to help ensure that infrastructure is developed.

The scale of the potential impact of climate-related risks and opportunities, and the timing over which these will manifest, will vary significantly across our business operations. The variability of impacts and the time horizons will be dependent on several different factors, only some of which are in the control of our organisation.

Climate risks and opportunities arise through two channels:

Physical

Changes in climate or weather patterns which are acute (event driven such as floods or storms), or chronic (longer-term shifts such as rising sea levels or droughts).

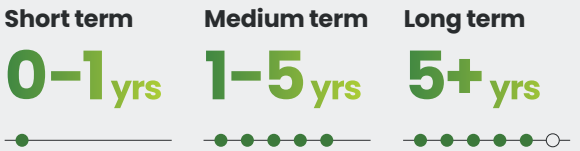
Transition

Changes associated with the move towards a low carbon economy, including changes to policy, legislation and regulation, technology and market; or legal risks from failing to manage the transition.

Given the nature of climate change, the time horizons over which climate risks and opportunities will present themselves may be a significantly longer time than we have previously experienced.

Time horizons

The time horizon over which the Group categorises short, medium and long-term risks is as follows:



Examples of how the drivers may impact the Group, our customers and our suppliers

	Drivers	Risk – examples	Opportunities – examples
Transition risk	Policy and legal	<ul style="list-style-type: none">Regulations and legislation intended to support the transition, including bans and/or limitations on existing activitiesIncreased pricing of GHG emissionsEnhanced reporting requirements, for example, around emissions	
	Technology	<ul style="list-style-type: none">Potential climate-related technology challenges, including: current technologies becoming obsolete; new technologies not being adopted, or experiencing problems as they are adoptedCosts to transition to lower emissions technology	<ul style="list-style-type: none">Providing finance to support our strategic sector investments in climate-related technology
	Market	<ul style="list-style-type: none">Changing customer behaviour and shifts in consumer preferencesMarket evolution to more sustainable business models and investments, including potential ‘sustainability bubbles’Increased costs of carbon-intensive and/or sustainable raw materials	<ul style="list-style-type: none">Increasing consumer preference for green products including in relation to our pension offering, sustainably-linked loans, financing of EVs and the market for green mortgages and home improvements
	Reputation	<ul style="list-style-type: none">Increased stakeholder concern or negative stakeholder feedback around supporting the shift to a low carbon economyIncreased scrutiny around activities relating to high emissions sectors and products	<ul style="list-style-type: none">Form industry partnerships to increase impact
Physical risk	Acute	<ul style="list-style-type: none">Increased frequency and severity of extreme weather events, such as floods and storms	<ul style="list-style-type: none">Develop products to promote climate resilience such as the Build Back Better scheme for Home Insurance
	Chronic	<ul style="list-style-type: none">Long-term shifts in our climate, such as rising average temperatures, rising sea levels and extreme variability in weather patterns	<ul style="list-style-type: none">Develop products that aid adaptation solutions

Evaluating the resilience of our strategy

Physical and transition risk from climate change can expose the Group to economic loss. The Group’s lending portfolio means we have relatively low concentration to sectors exposed to increased climate risk.

- 1 This chart represents the Group's own selection of applicable scenarios and/or and its own portfolio data. The Group is solely responsible for, and this chart represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.
- 2 The baseline uses the NGFS current policies scenario and current climate (today's temperature and physical risks). Baseline company financials are scaled based on a company specific growth rate.
- 3 This is the estimated incremental impact on NPV for key sectors versus baseline, as described above.
- 4 Our analysis represents a total view of drawn exposure, including green and sustainability-linked financing which supports the transition to a low carbon economy.
- 5 Real estate includes social housing.
- 6 Construction includes housebuilders, construction materials, chemicals and steel manufacturers.

Grow

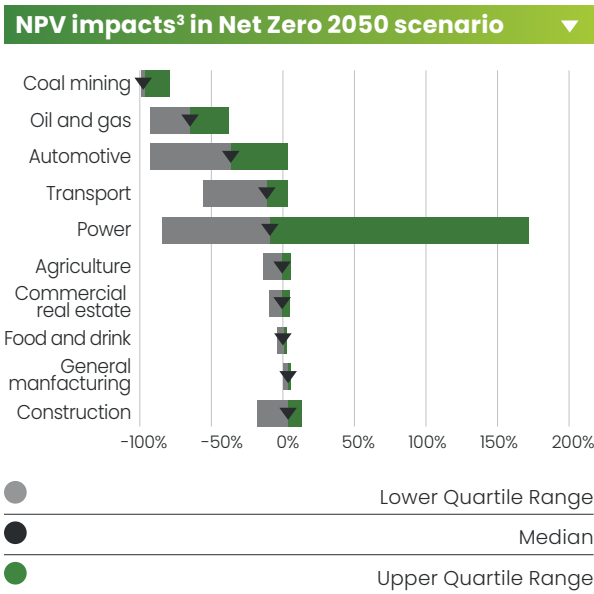
Focus

Industry exposure to climate risk

The chart below provides an overview of the susceptibility of high-risk sectors to climate risk, specifically in the Network for Greening the Financial System (NGFS) Net Zero 2050 scenario. This scenario reflects very ambitious climate policies and therefore explores a considerable degree of transition risk.

We have created this analysis using data from a large pool of listed companies, provided by Planetrics, a McKinsey & Company solution¹. Therefore, this reflects a global view of each sector rather than being specific to the Group's portfolio. The estimated financial impacts from physical and transition risk are modelled for each entity. The relative difference between this climate estimate and a baseline² provides an indicative foresight view of discounted cashflow, and hence Net Present Value (NPV) of the entity from 2022 to 2050. These entity-level NPV differences are aggregated to provide a view aligned to our lending sectors with increased climate risk. Counterparty-level transition plan effects have not been included.

The chart illustrates that the majority of firms in the coal mining sector would be severely impacted, with even the best performing quartile experiencing a c.80 per cent reduction in NPV by 2050. Conversely, there are a wide range of outcomes for the Power sector. Although the median impact to NPV by 2050 is a c.15 per cent reduction, several counterparties are projected to grow since renewables are already a large proportion of their production mix and therefore would not attract increased costs due to carbon taxes in this scenario.



Understanding our lending exposure to climate risk

To help understand our role in supporting the UK transition, we have refined the analysis of our exposure to sectors of the economy with increased climate risk where we have lending to customers that may likely contribute a higher share of the Group's financed emissions. Not all customers in these sectors have high emissions or are exposed to significant transition risks. A summary is included in the table below of our lending by sector.

For additional financial information on our sectors with increased climate risk see summary on **pages 73 to 74**

We have proportionally lower exposure to the sectors that are forecast to experience the most significant negative impacts on company values and have set seven specific targets for some of the highest emitting sectors to ensure we are driving action to help reduce emissions.

See transition plan section **pages 23 to 37**

We continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change.

Bank lending to sectors with increased climate risk⁴

Sector	Total lending 31 December 2022 £m	% of total
Coal mining	-	0.0%
Oil and Gas	825	0.2%
Automotive	2,441	0.6%
Transport (industrial and passenger)	2,277	0.6%
Power/ Utilities	2,234	0.5%
Agriculture, forestry and fishing	7,447	1.8%
Real estate ⁵	21,651	5.3%
Food manufacturing and wholesalers	1,218	0.3%
General Manufacturing	1,581	0.4%
Construction ⁶	3,607	0.9%
Sub total	43,281	10.6%
Personal (mortgages and other)	350,077	85.4%
Lease financing and hire purchase	16,795	4.1%
Total	410,153	100.0%

How we are tackling transition

In line with our strategy, we will actively manage our climate risks focused on those sectors that are most material for the Group and present the most risk. We reserve the right to exit relationships where we don't see the level of commitment or progress we believe is necessary to keep key climate ambitions within reach. Full details can be found within our **Transition plan and Risk management sections**.

See transition plan **page 26**

Bank sector transition approach

Sector	High-level narrative
Coal mining	We are planning a full exit from thermal coal power in the UK by the end of 2023 and a full exit from all entities that operate thermal coal facilities by 2030 as part of our Powering Past Coal Alliance commitments.
Oil and Gas	We will no longer provide direct financing of new greenfield oil and gas developments approved past the end of 2021. We will only provide financing to new oil and gas clients for viable renewable energy and transition technologies. We have set a target in line with reductions required by the IEA NZE 2050 scenario.
Automotive	We have set a decarbonisation target in line with the IEA NZE 2050 global scenario, and we will expect our clients to set targets which are either in line with IEA NZE 2050 and/or validated by the Science Based Targets initiative (SBTi) alongside providing green lending to support their transition.
Transport	We have performed a materiality exercise for transport sub sectors and have set a decarbonisation target for our most material travel sub sector, which is aviation. Our rail and shipping activities within the transport sector have been excluded, based on materiality of our exposure.
Power	We are committed to increasing lending across all forms of low carbon power generation, in support of UK net zero goals and wider aims to scale these technologies to create new sources of power. We have updated our power generation target to align with the reductions required by the IEA NZE 2050 OECD scenario.
Agriculture	We are developing tools to help educate and support farmers to understand their climate risks and impacts to transition. We intend to set a decarbonisation target for this sector to be published in 2024.
CRE	Climate risk is considered within our Commercial Real Estate policies and we intend to set a decarbonisation target for this sector in the coming year.

Our Insurance business, Scottish Widows, also assessed its exposure to key climate-related risks and following the public commitments made in early 2021, published a **climate action plan** in line with The Institutional Investors Group on Climate Change (IIGCC) guidance

How climate is factored into our financial planning process

Climate considerations form part of our planning and forecasting activities. We consider climate effects in our base case economic scenario and forecast financed emissions alongside climate risks and opportunities within the Group’s four-year financial plan, primarily conducted across three key areas.

Our financial planning process acknowledges the dependencies on both external factors such as policies, technology developments and customer behaviour. We continue to monitor the impact of these external factors on our Group ambitions and targets alongside working in partnership with our customers and other stakeholders to achieve our common goal of achieving net zero by 2050.

For further details on how we work with external parties to drive the transition see **page 25**

- 01 Forecasting our Bank financed emissions to 2030 for our high-carbon-intensive sectors.
- 02 Gathering supporting qualitative assessments of the risks and opportunities present for certain material sectors.
- 03 Building out the Group’s investment planning capabilities to progress our climate ambitions and targets: reducing the emissions we finance, reducing the emissions from our suppliers and supporting our net zero own operations footprint.

Financial statement preparation includes the consideration of the impact of climate change on the Group’s financial position. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements, and estimates from the physical, transition and climate-related risks in the short term.

An assessment was performed of the Group’s internally generated economic scenarios used in the measurement of expected credit losses against external scenarios published by the NGFS. This was supplemented by an assessment of the behavioural lifetime of assets against the expected time horizons of when climate risks may materialise. Given the extended timelines related to climate risks compared to the tenor of the Group’s lending portfolios and insights produced by the Group’s climate risk experts, no adjustments have been required to the expected credit losses measured as at 31 December 2022.

There is no material impact assessed on the Group’s financial position or performance as at 31 December 2022.

In 2023, we plan to further enhance our sustainability planning capability to support development of transition plans for some of our hardest to abate sectors. We are continuing to increase the scope of our emissions forecasting to cover more of our balance sheet, leveraging our forecasting process and capabilities to track progress against our published sector targets.

In action

Brewery’s focus on locals serves up quality and sustainability



See the story here



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency

SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

Rebellion Beer is one of the first small-scale brewers to provide a local alternative to the mass market drinks industry. In doing so, they believe they are crafting better beer that’s also better for the environment.

From the start, Rebellion embraced localism, and it now makes 98 per cent of sales within a thirty-mile radius of the brewery.

Lloyds Bank provided finance for an on-site bottling line, which was previously outsourced to a bottling company 160 miles away, providing a loan to support another one of their sustainability initiatives, the introduction of 1-litre re-useable bottles.

We have helped Rebellion become a more sustainable business by supporting their ambitious initiatives.

Identification and assessment of climate risks

Focus

The ability to identify, measure and manage the risks associated with climate change is integral to embedding consideration of these risks within our Enterprise Risk Management Framework (ERMF).

As our understanding of the impacts of climate risks has evolved, we have adopted a 'Double Materiality' approach. This is the concept that risk can materialise as:

- a) The impacts of climate change or the transition to net zero on the Group and our associated activities (inbound risk).
- b) An adverse direct impact on people and the environment as a result of the Group or its practices (outbound risk).
- c) Both.

This approach allows us to assess not only the impacts of risks to us as a Group, but also the impact of our balance sheet on society and the planet.

Risk identification

We look to ensure risks are proactively identified across the Group, reflecting a number of potential internal and external sources, including environmental factors, such as climate change. As we develop our understanding of climate risk, we initially created a central view of the main inbound and outbound risks impacting the Group. This was informed by previous qualitative and quantitative analysis of climate-related impacts, including workshop discussions and outputs from the Climate Biennial Exploratory Scenario, however, we expect this

will continue to evolve. This overview supported further discussions across the Group on the key climate risks we are faced with, to integrate consideration of climate-related impacts into our respective risk profiles.

Identification of climate risk is supported by horizon scanning of climate-related developments across the Group. This is particularly important given the uncertain and long-term nature of the risks from climate change, as well as the increasing focus in this area. Regular monitoring of climate-related regulatory and legal developments is also in place, ensuring suitable consideration and

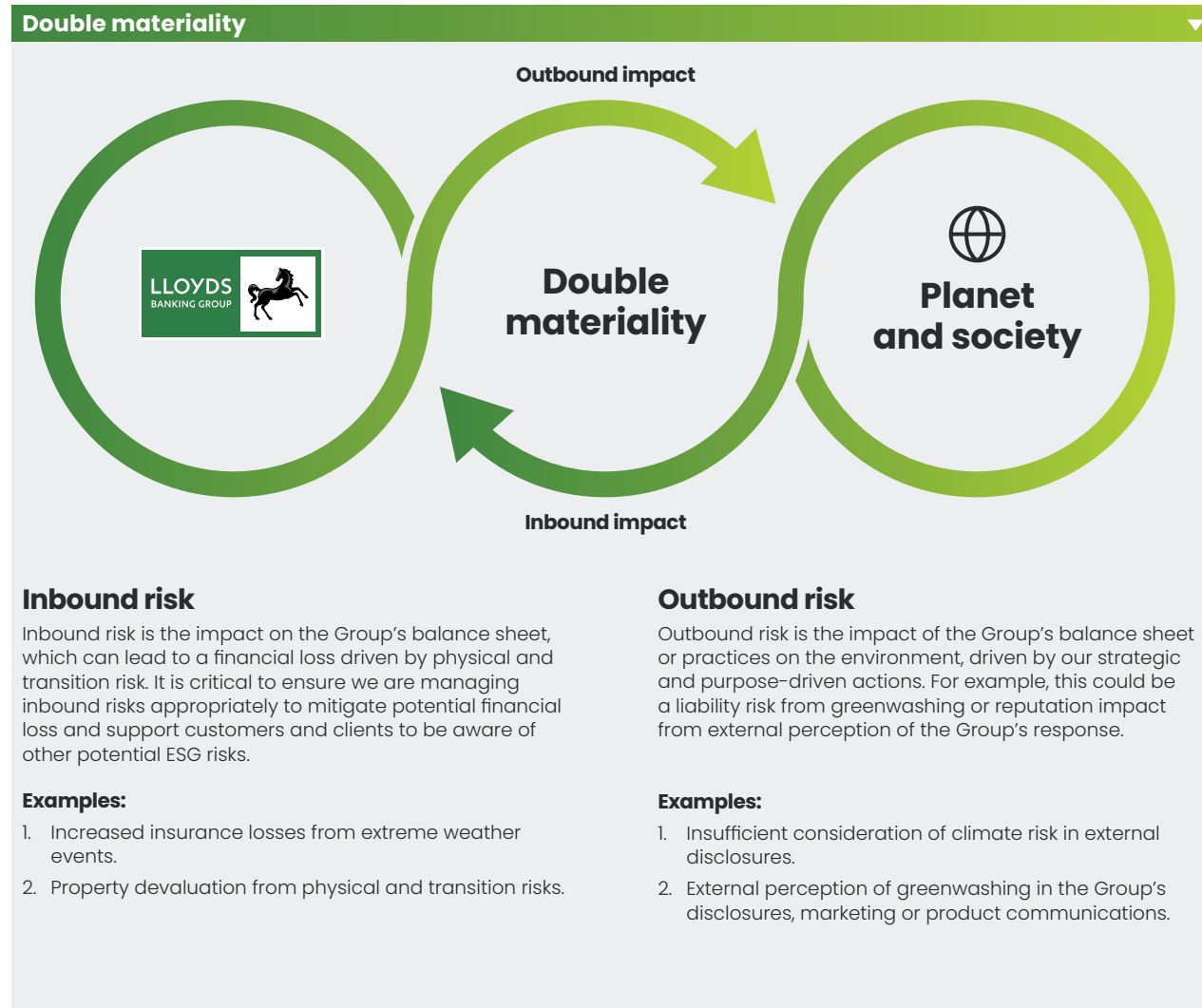
appropriate action is taken. We also participate in several climate change initiatives (refer to page 24), which provide insight across the industry and support monitoring emerging trends and developments and ensure these are appropriately reflected in our strategy. Consideration of climate risks within our financial planning process is also in place to support identification of climate risk, considering the potential impacts for the Group across key areas of the business.

Risk assessment

Engagement across the Group has supported assessments of our key climate risks, ensuring a proportionate approach to focus on the most material risks. The impact and likelihood of potential climate risks has been assessed in line with our ERMF to understand the potential effects on the Group's performance and reputation. We assess a number of factors to determine the materiality of these impacts, including: customers; reputation; regulatory; financial losses; impact on business objectives; and impact on management time, resources and colleagues. These factors are relevant for consideration in assessing climate-related risks given that these risks may potentially impact a number of our traditional risk categories, while also impacting a broad range of stakeholders.

We are continuing to develop our approach to the assessment of climate risks impacting other risks, supported by appropriate tools and methodologies. One example is our qualitative ESG risk assessment for commercial clients. From a climate risk perspective, this is designed to generate a score for individual clients based on their transition readiness and response to managing climate risks and opportunities.

📖 Further information on this is outlined in the Risk management section **pages 56 to 62**



Key climate risks facing the Group

The following table considers the key inbound and outbound climate risks we face, alongside the drivers of these risks, related time horizons and risk types impacted.

Focus

Key climate risks facing the Group				
Type or impact	Risks	Drivers	Time horizons	Risk types impacted
Inbound	Property devaluation from physical and transition risks	Transition (Policy and Legal, Technology, Market) Physical (Acute, Chronic)	Medium, Long	Credit
	Adverse impact on residual value of motor vehicles	Transition (Policy and Legal, Technology, Market)	Short, Medium, Long	Credit
	Reduction in clients' creditworthiness or collateral valuation	Transition (Policy and Legal, Technology, Market, Reputation) Physical (Acute, Chronic)	Medium, Long	Credit
	Reduction in value of assets ¹ and investments due to physical/transition risks	Transition (Policy and Legal, Technology, Market, Reputation) Physical (Acute, Chronic)	Medium, Long	Market
	Disruption to the Group's services from extreme weather, for example damage to Group properties	Physical (Acute, Chronic)	Long	Operational resilience
	Meeting relevant expectations/requirements, e.g. Prudential Regulation Authority (PRA) Supervisory Statement (SS3/19)	Transition (Policy and Legal)	Short, Medium, Long	Regulatory compliance
Outbound	Failure to adequately support the transition to net zero	Transition (Reputation)	Short, Medium, Long	Climate
	Insufficient consideration of climate risk in external disclosures	Transition (Policy and Legal, Reputation)	Short, Medium	Operational (financial reporting)
	External perception of greenwashing in the Group's disclosures, marketing or product communications	Transition (Policy and Legal, Reputation)	Short, Medium, Long	Conduct
	Failure to ensure a Just Transition	Transition (Reputation)	Short, Medium, Long	Conduct

¹ This includes the Group's defined benefit pension schemes assets. Climate change could potentially impact the schemes' financial position due to changes in asset prices, financial market conditions and members' longevity.

As climate risk is wide-ranging, this is not an exhaustive view of all the potential climate risks that could impact the Group. Additional climate risk considerations and how they are addressed in our ERMF are covered in our Risk management section.

See Risk management section **pages 56 to 62**

Initial quantitative analysis of climate risk impacts and the resilience of our business can be found in our Scenario analysis section.

See Scenario analysis section **pages 63 to 67**

The impact of climate change has also been considered in our financial statements.

See page 227 Note 3 Critical accounting judgements and key sources of estimation uncertainty within the **annual report and accounts 2022**



Identifying our climate opportunities

As the UK’s largest financial services provider, we have both the opportunity and responsibility to support the UK’s transition towards a greener future through our lending and investments and net zero products and services.

The timing of opportunities has been considered in relation to the time frames outlined on page 13 while we note that timing is partly dependent on factors such as UK government policy and regulation, technology developments, as well as our customers’ response.

The following is an indicative list of the climate-related opportunities that we are looking to incorporate across the Group.

- 1 Sustainability Linked Loans (SLLs), are available to larger businesses and incentivise the borrower’s achievement of ambitious, pre-determined sustainability-related targets aligned to the Groups’ interpretation and application of the voluntary market standards outlined by the Loan Markets Association Sustainability Linked Loan Principles.
- 2 The Clean Growth Finance Initiative (CGFI) provides discounted financing for business sustainability investment meeting our qualifying green purposes across the themes of reducing emissions, energy efficiency, low carbon transport, reducing waste and increasing recycling, and improving water efficiency. The qualifying criteria are reviewed annually with the support of third-party specialists.

Grow

Our climate opportunities			
Opportunities	Area	Drivers	Time horizon
Supporting our customers to make sustainable choices	We will strive to be a responsible investor that protects our investments from material ESG-related risks and seeks to capitalise on ESG-related opportunities. We aim to offer a fund range to our customers that will support them in making sustainable choices.	Transition (Market, Policy and Legal)	Medium, Long
	We have launched several tools that can be used by our customers to understand their current emissions.	Transition (Technology, Market)	Short, Medium
	We will develop industry partnerships to help drive energy-efficient solutions for our customers.	Transition (Technology, Reputation, Market)	Short, Medium, Long
	Our Build Back Better initiative (backed by Flood Re) helps to improve the flood resilience of our Home Insurance customers.	Physical (Acute, Chronic)	Short, Medium, Long
Reducing the environmental impact across our own operations	We have set operational climate pledges to achieve carbon, energy, travel, water and waste reduction across our branches, offices and data centres, as well as emissions from colleagues’ commuting and business travel.	Transition (Technology, Reputation, Market)	Short, Medium
Provision of sustainable finance for strategic sectors	Sustainability Linked Loans ¹ (SLLs) and our Clean Growth Financing Initiative ² (CGFI), reward business for positive action either in terms of using the loan for green purposes or for delivering improved sustainability performance.	Transition (Technology, Market)	Short, Medium, Long
	Supporting the social housing sector with demand for energy-efficient homes and investing in green infrastructure.	Transition (Technology, Market)	Long
	Leading provider of financing for EV and plug-in hybrid electric vehicles.	Transition (Technology, Market)	Short, Medium
Supporting our colleagues on their sustainability journey	As a leading provider in car financing, our colleagues benefit from our flexible finance solutions for EV and plug-in hybrid vehicles.	Transition (Technology, Market)	Short, Medium, Long
	Group-wide courses on sustainability, introducing the topic of climate change and how we can make sustainable choices.	Transition (Market, Policy and Legal)	Short, Medium, Long
	In response to member feedback, the Lloyds Banking Group Pensions Trustees Limited integrated ESG considerations into its investment strategy, allowing our colleagues in the defined contribution schemes to opt to participate in an ESG-aligned pension investment.	Transition (Market, Policy and Legal)	Medium, Long

Initiatives in action

Customer tools

Our Find Your Impact feature in the Scottish Widows app allows members to see where their money is invested and the impact these companies have on the world around them

Sustainable investments

Our Scottish Widows investment team have made:

- **£320 million** of direct investment in Social Housing loans in 2022
- **£450 million** investment in green energy infrastructure projects since 2017, including on and offshore windfarms, solar farms and smart metering



£450m

invested in green energy infrastructure projects

£10k

Up to £10k offered to eligible customers to spend on specialist flood surveys and property flood resistance

Home insurance

Our Build Back Better scheme, to help support our customers resilience to climate change, went live on 1st July 2022 and the first eligible claim was registered in August. Build Back Better is a voluntary, industry-wide scheme backed by Flood Re aimed at improving property flood resilience across the UK.

Range of specialist investment funds



ESG-Integrated investment portfolios

We are looking to integrate ESG factors across our investment portfolio and we have also enhanced our options to offer a range of specialist funds tilted towards what we currently define as sustainable and impact investments, noting that the FCA is looking to introduce specialist labels for such funds.



300m sq ft

More than 300 million square feet of real estate has been assessed with this tool to support our clients to make their commercial properties greener



Green Buildings Tool for customers

Our Green Buildings Tool is a free digital insights calculator which helps clients assess and improve the energy efficiency of their buildings.





Sustainable car finance

We aim to deliver green lending product growth with £8 billion of financing for new electric vehicles and plug-in hybrid electric vehicles by 2024.

£2.1bn

In 2022 we provided £2.1bn of funding against the £8bn target



Partnership with Energy Saving Trust

Our online Home Energy Saving Tool developed in collaboration with the Energy Saving Trust enables homeowners to identify energy-efficient improvements.

25k

personalised plans since launch



Helping commercial customers understand their emissions

The Carbon Insights Report was piloted in 2022 to give clients unique insight into their estimated emissions and ideas for the next stage of their business's journey.

>400

clients had registered to use the insights report by the end of 2022

Colleague green car offering



44%

Approximately 44% of our company car fleet is electric and plug-in hybrid vehicles

Green and sustainability-linked finance



£7.9bn

of green and sustainability-linked finance for corporate and institutional customers have been supported in 2022

In action

Now To Net Zero



SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

We are proud to work with smaller businesses around the UK and have developed a range of resources to support their sustainability work, from our From Now To Net Zero practical guide for SMEs to our Green Buildings Tool.

Our Now to Net Zero report sets out a five-step journey for SMEs to reach net zero. We followed this in 2022 with the release of our Net Zero Monitor. Almost two thirds (64 per cent) of SMEs said they had a plan in place to reach net zero by 2050, with only 5 per cent not acting or considering acting on net zero.

Despite other challenges facing businesses, 93 per cent of SMEs say that sustainability challenges are important to them, with 83 per cent reporting it has become more important in the last year. The research also showed the top activities being undertaken by SMEs trying to achieve their net zero targets and highlights net zero 'heroes', companies which can act as champions for other businesses on their road to net zero.

How we support our stakeholders

During 2022, we have continued to work hard to Help Britain Prosper. This is in the best interests of all our stakeholders.

change

Our customers and businesses

We routinely host interactive sessions with our key clients and discussions with our executive management and Board members on our climate response strategy and key challenges facing our customers. Through our net zero origination work we identified over 85 technologies required for the energy transition and rolled this up to 14 core technologies. We're looking at each of these technologies holistically and focusing in on things like Technology Readiness Level, the financing required, the decarbonisation impact, and the societal benefits each technology can bring. We also launched a partnership with Edie – a leading purpose-driven media brand – to engage, influence and recognise those organisations leading the way in driving sustainable business.

In July 2022, we convened multiple strategic partners across the housing market to share key priority areas for the housing industry, including the focus on sustainability. This collaboration event represented a unique opportunity for the Retail and Commercial teams to bring together a mix of populations from the housing market at scale. Attendees included builders, mortgage advice firms, housing associations, and other key groups who are crucial in supporting the sustainability ambitions of the UK housing market. We won't stop here; we are keen to keep momentum going, to build on the success of the first Housing Senate and together strive to make the idea of a better, more sustainable housing market a reality.



Our colleagues

The Group has 98 per cent of our employees participating in the in-house pension schemes. Lloyds Banking Group Pensions Trustees Limited, which is responsible for managing the largest Group pension schemes, also shares the commitment to reduce carbon emissions by at least 50 per cent of its c.£35 billion investments by 2030, and net zero by 2050.

50%

The in-house pension scheme shares a commitment to reduce carbon emissions by at least 50% by 2030

Our shareholders

The Group has a proactive investor stakeholder engagement programme. We engage extensively with shareholders and other investor stakeholders (e.g. proxy advisors and NGOs) on a range of ESG topics, including our climate commitments and plans.

Over the past year, various ESG topics were covered in our meetings with shareholders and other investor stakeholders. The Group also undertook a number of climate-focused one-on-one meetings and group presentations, participated in several ESG investor conferences and held a Board Governance Event hosted by the Group Chair. We continue to disclose on ESG, biodiversity and climate change impacts, through this report, and also our:

social sustainability report 2022



annual report and accounts 2022



Supply chain

In 2022, we embarked on our journey to reduce supply chain emissions by seeking to align our key suppliers to our own net zero ambition.

For further details see Supply chain transition plan pages 47 to 48

Society and government

In order to drive progress and action against climate change and broader environmental matters, we participate in several industry initiatives and seek to provide thought leadership where appropriate.

For further details see page 25



Importance of nature



Nature underpins our economy, our livelihoods and our wellbeing. However, the ongoing depletion of natural ecosystems and resources without appropriate considerations for the consequences is resulting in unsustainable loss of biodiversity and damage to our natural environment.

We recognise there is an important role that financial institutions can play in helping to preserve natural ecosystems, minimise nature-related risks, and channel capital towards protection and restoration of nature.

We recognise that the climate and nature crises cannot be solved independently. In fact, nature-related activities can enhance our decarbonisation efforts. The Intergovernmental Panel on Climate Change's (IPCC) special report on limiting global warming below 1.5°C found that three of the five most effective strategies for reducing emissions are nature-based solutions. Given the interconnectedness between nature and climate, our approach looks to extend our understanding of climate change to incorporate nature-related risks and opportunities. This will help to ensure that we have an approach that considers a holistic environmental sustainability strategy.

As a UK-centric financial institution, we want to play our role in helping restore and protect nature in the UK, which is closely aligned to our purpose of Helping Britain Prosper. This is of particular importance as the state of nature in the UK has rapidly declined. The abundance of UK priority species declining 60 per cent since 1970, placing it in the bottom 10 per cent of countries globally¹.

Nature loss is a complex topic and there is no single 'metric' of measurement. The first step on our journey is to understand more clearly how the Group's activities interact with nature. Our work has focused on developing an understanding of how our activities are impacting nature within the UK both in terms of our own operations and through the clients we finance.

-  To see how we are expanding our efforts on nature, please refer to **page 37**.
-  In respect of our own operations, please refer to **page 46** for further detail on our nature-related activities in 2022.

1 <https://www.gov.uk/government/statistics/uk-natural-capital-accounts-2021>
2 UK natural capital accounts: 2021 – GOV.UK (www.gov.uk).
3 Savills UK | Current agricultural land use in the UK.



Our work to date

In our 2021 ESG report we disclosed plans to complete an assessment across our Bank lending book to identify our key impacts on nature in order to prioritise our efforts. Due to the complexity of understanding and measuring the impact on nature and the current limitations with data availability, we have focused initially on assessing our clients' direct impacts on UK natural ecosystems. In the future we will look to further incorporate the impacts felt through our clients' supply chains. For this assessment we drew on insights from the UK's Natural Capital Accounts², UNEP-FI's ENCORE tool and other publicly available information.

Our findings led us to initially focus on the Bank's agriculture sector. This is due to the significant impact that agriculture has on the UK, with over 70 per cent of the UK's land used for agricultural practices³ and as a result of the size of our exposure to this sector. Our aim is to support our clients move to more sustainable practices and we have already started to make some progress in this regard through our work with the Soil Association.

-  In respect of our investment portfolio, please refer to **page 42** for further detail on our nature-related activities in 2022.

In action Working with the Soil Association



See the story here

Further details on Exchange, our collaboration with the Soil Association.

We are working with the Soil Association to pilot a new service, the Soil Association Exchange, to help British farmers accelerate their transition and identify financial and environmental advantage for their land. We are funding this consultancy service for up to 1,000 of our largest agriculture customers, helping them to improve their operations' ecological footprint and overall sustainability. Exchange covers soil health, carbon emissions, water quality, biodiversity, animal health, and the social and community impacts of the farm.

The pilot also aims to capture lessons from farmers to help create advice, guidance and support that can be applied across the agriculture industry as it seeks to achieve its target of net zero greenhouse gas emissions by 2040. By offering this consultancy service to our largest farming borrowers, the Bank will build up a database of financed emissions across approximately half our Agriculture lending book. We will also use any learnings to offer case studies and best practice to all of our farming clients. This 'Measure, Improve, Reward' theme is being well received by farmers and encouraging them to look at where they are on their sustainability journey.

Transition plan

In this section

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We recognise that ambition alone won't support the transition or deliver on our purpose of Helping Britain Prosper.

We need a plan to deliver on our strategy.

Our first Group climate transition plan sets out the steps we'll take to reduce emissions to net zero for our operations, supply chain and across our Bank's financed emissions. Our Group plan complements the progress we started with our Scottish Widows Climate Action Plan.

Our climate transition plan has been informed by guidance from the Glasgow Financial Alliance for Net Zero (GFANZ) and Transition Plan Taskforce (TPT), as well as guidance from the Task Force on Climate-related Financial Disclosures (TCFD), all of which continue to evolve.

We don't yet have all the answers and we continue to work with our stakeholders to evolve our approach. We expect to iterate our plan regularly in the coming years as a result and as guidance converges around more defined recommendations that will inform future versions. To aid this we are a part of the Transition Plan Taskforce Sandbox, to ensure continuous sharing of our own learnings as well as learning from others.

Our transition plan is governed under the same structure and financial planning process as our wider environmental sustainability strategy.

Please see governance section (page 49)

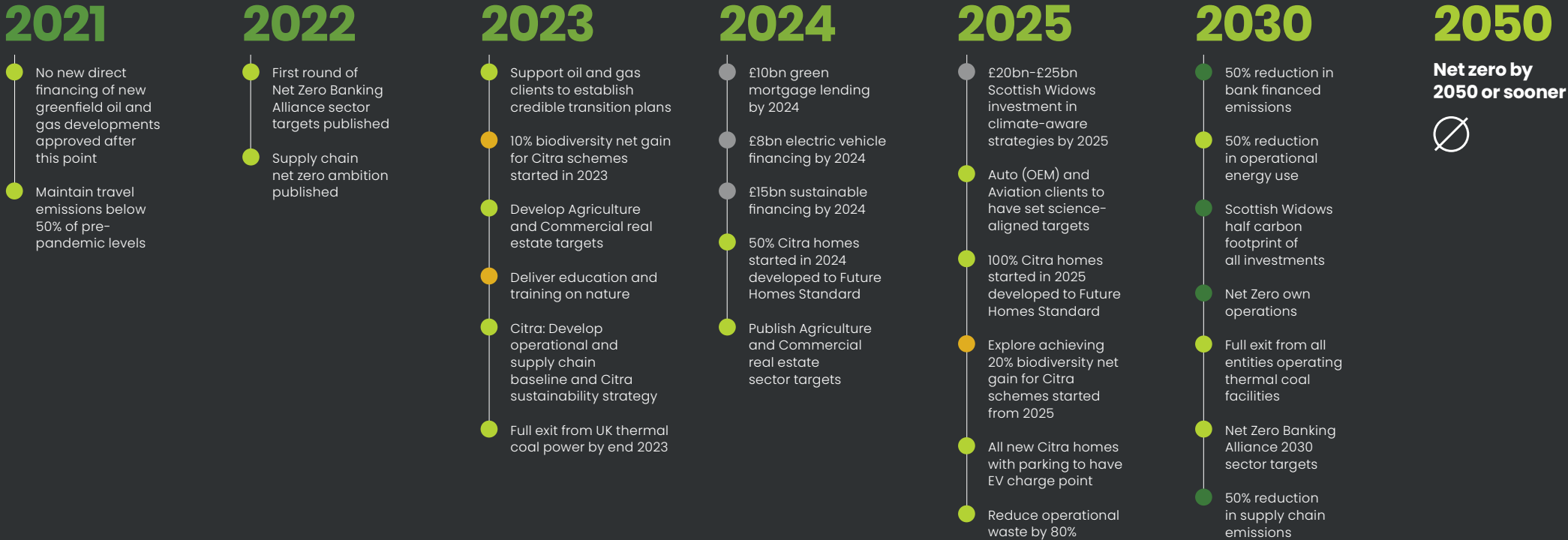
Please see climate risks and opportunities (pages 17 to 18)

Summary of our activity

We have set several net zero ambitions across our Group to support the decarbonisation of our business in line with limiting global warming to 1.5°C. Our climate transition plan provides the plan and pathway to how we will achieve our Group ambitions and targets discussed in our Strategy, metrics and targets section.

See pages 11 to 12

- Net zero ambitions
- Other net zero targets and goals
- Sustainable finance targets
- Nature and biodiversity



Engagement strategy

Our ambitions and targets have been set with an acknowledgement that there are key dependencies on external parties and other factors to achieve them.



Policy

We all need to work together to achieve net zero and we will continue to play our role in supporting the public policy developments in the UK that help accelerate the transition. Public policy levers, both in the UK and other regions where our clients or customers are located or do business, will be essential to help achieve decarbonisation at scale, particularly in high-emitting sectors such as housing and transportation.

Our recent activity includes providing input into the UK Department for Business, Energy and Industrial Strategy's (BEIS) net zero review in October, focusing on how the government can support the transition to net zero.

We discuss specific policy levers and engagement within the sector sections of this transition plan where relevant.

Partnerships and initiatives

We will continue to partner with businesses, industry groups and other organisations to help lead the transition, as they also increase their own capabilities and skills, to enable the level of transformation required to work towards net zero. Here are some of our current net zero initiatives and partnerships; for those sectors where we have set targets, specific activity is covered in the relevant section of this transition plan and throughout the wider report.

United Nations Principles for Responsible Banking (UNPRB)

Designed to accelerate the banking industry's contribution to achieving society's goals as expressed in the Sustainable Development Goals (SDGs) and the Paris Agreement, Lloyds Banking Group became a member in 2019.

Net-Zero Banking Alliance (NZBA)

The Bank became founding members of the NZBA in April 2021 and continues to implement the guidance, supported by new resource and expertise recruited into the business. We are reviewing how best to contribute to the individual NZBA work tracks, as we seek to develop approaches to sector-specific issues.

Glasgow Financial Alliance for Net Zero (GFANZ)

Lloyds Banking Group became members of GFANZ in 2021 through our participation in the NZBA and Scottish Widows' membership in the Paris Aligned Investment Initiative (PAII). We have used GFANZ guidance on transition plans in developing our first Group climate transition plan and will continue to monitor and contribute to GFANZ activity in this area.

Banking for Impact on Climate in Agriculture (B4ICA)

Formed in 2021, Lloyds Banking Group joined this initiative in order to collaborate with other agriculture industry stakeholders to help develop solutions to better measure agricultural carbon emissions at a farm/producer level, which will further aid development of solutions to manage those emissions. In December 2022 the Guide for Net Zero Target Setting for Farm-Based Agricultural Emissions – Best Practices for Banks was launched as part of this initiative.

Sustainable Markets Initiative (SMI)

Led by King Charles III, we are an active member of the Financial Services Taskforce (FSTF).

Equator Principles

Lloyds Banking Group is a signatory to the Equator Principles 4, which is a risk management framework for determining, assessing and managing environmental and social risk in Project Finance transactions, such as large-scale energy, industrial or infrastructure projects.

United Nations Principles for Responsible Investment (PRI) Advance

The PRI has launched a new stewardship initiative under which institutional investors will work together, using their collective influence to take action on human rights and social issues with companies, policy makers and others. Scottish Widows was successful in becoming a 'collaborating investor' for collective engagement activity within this initiative.

Institutional Investors Group on Climate Change (IIGCC)

The IIGCC's Net Zero Engagement Initiative (NZEI) aims to enable net zero portfolio alignment by supporting investor engagement in seeking the disclosures that investors need from companies to determine if they are aligned with net zero. Scottish Widows has accepted an invitation to participate, with five other investors, in the management of the day-to-day leadership of this initiative.

Association of British Insurers (ABI)

We are a member of the ABI Board and the Board's Climate Change Sub-Group, as well as their Climate Change Working Group. We continue to collaborate on their roadmap which covers short and medium-term decarbonisation milestones for the insurance sector, proposals on how insurers can provide one-third of investments needed to meet the UK's decarbonisation targets and plans to support customers in making sustainable choices.

Aldersgate Group

In 2020, we joined the Aldersgate Group, which is a multi-stakeholder alliance championing a competitive and environmentally sustainable economy that advocates the business case for decarbonising the UK economy, improving resource efficiency and investing in the natural environment through targeted political engagement and policy development.

UK Sustainable Investment and Finance Association (UKSIF)

As a member of the UKSIF, Scottish Widows continues to contribute towards industry best practice and to advance the regulatory and policy agenda towards creating well-functioning markets which embrace and embed long-termism. We are currently participating in their working group to support the development of the UK Taxonomy and sustainability related regulation and are represented on their Board.

Department for Work and Pensions Taskforce on Social Factors

This aims to help UK pension funds trustees ensure that social risks and opportunities are given as much prominence as climate change. Scottish Widows has been invited to join this taskforce and support the agenda.

Green Finance Institute (GFI)

We continue to contribute to the GFI's Coalition for the Energy Efficiency of Buildings (CEEB) aimed at developing the market for financing a net zero carbon and climate resilient built environment in the UK initially by catalysing the widespread retrofitting of residential buildings. We also continue to contribute to the GFI's Coalition for the Decarbonisation of Road Transport (CDRT), which is focused on charging infrastructure, consumer finance and leasing and battery technology and recycling.

Bank financed emissions transition strategies

Our banking portfolio covers some of the UK’s most emissions-intensive sectors but does not mirror the emissions profile of the wider UK economy; our proportion of emissions is higher for sectors such as Agriculture and Homes, sectors that are challenging to decarbonise and transition.

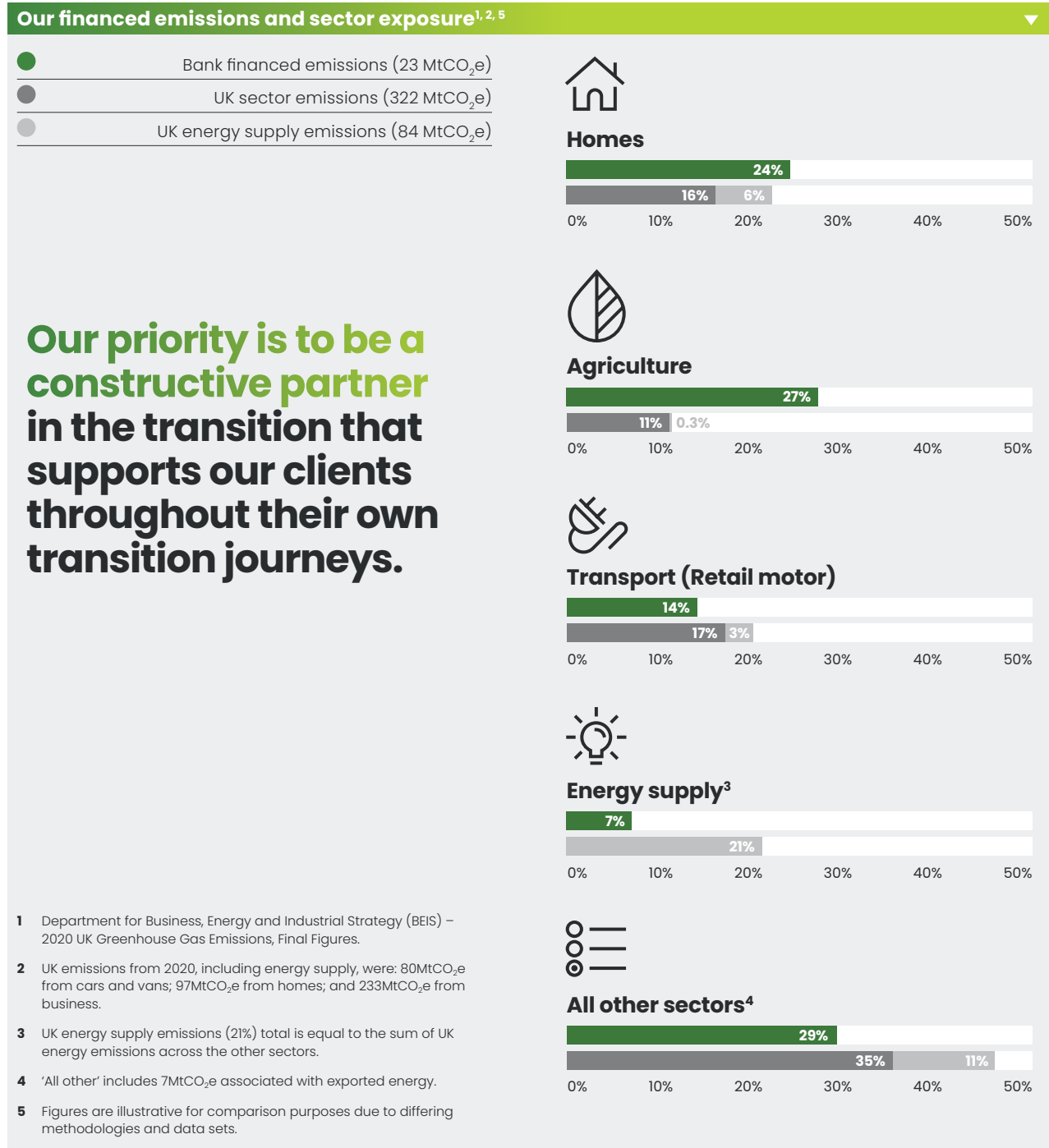
In this context we must consider the role we can play and the dependencies which impact how we can work to reach our climate ambition, while continuing to support the UK as it decarbonises.

As part of our overall ambition to reach net zero by 2050 or sooner, we set ourselves the ambition to work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030.

Our priority is to be a constructive partner in the transition that supports our clients throughout their own transition journeys. Where we don’t see the level of commitment or progress we believe is necessary to keep key climate ambitions within reach, we reserve the right to change or exit those relationships.

We recognise that as much as we can achieve through our own lending decisions, we cannot achieve our ambitions alone. Transitioning to net zero is a universal endeavour and will depend on government, industry and wider society acting together, alongside significant technology advancements in high-emitting sectors.

Further, industry standards such as the Partnership for Carbon Accounting Financials (PCAF) and Net-Zero Banking Alliance (NZBA) continue to evolve. This makes it difficult, at this point, to fully understand our true baseline emissions and the progress towards our target but we believe this should not stop us from acting now. To address this, the Group is committed to provide our insights and contribute to methodology development in alignment with international guidelines and standards.



Bank financed emissions transition strategies continued

Bank approach to implement across sectors

In April 2021, Lloyds Bank became a founding member of Net Zero Banking Alliance (NZBA). As such we seek to understand and target our emissions from our banking activity using a sector-based approach with targets to 2030 for many of our most carbon intensive sectors. This approach informs and builds on our commitment to reach net zero by 2050 or sooner.

To date we have developed seven sector targets. In setting our targets we have determined the key actions we will take to work towards achieving them based on the levers available today and expected future changes in the market, as determined in our sector transition plans.

Each of the sector targets has some degree of challenge to ensure we remain ambitious. Initial views from the sectors for which we have now set targets suggest we may need to go further in some areas to achieve our overarching 50 per cent emission reduction ambition. We expect our view to evolve as we set additional targets and where a gap remains we will assess whether we will take mitigating steps.

It should also be noted that the baseline, pathways and targets may be subject to change as data availability and granularity improve, scenario pathways are updated, and the broader regulatory and industry environment evolves. We continue to enhance our climate data capabilities to address these challenges by expanding our sources of data and developing partnerships to increase the amount of client-level data that is available.

Scottish Widows loan investments

In addition to the Bank implementing decarbonisation targets across sectors, we explore where Scottish Widows loan investments can help support the transition across the Bank. For example, in addition to the work undertaken as part of our Bank sector strategies, Scottish Widows has invested £320 million in 2022 for Real Estate and Social Housing clients, much of which is intended to fund new energy-efficient housing stock and to support retrofit activity on existing housing stock.

Our approach following NZBA guidance



Sector selection

We prioritised our first round of targets on fossil fuel sectors (oil and gas, thermal coal and power utilities) and other sectors with high emissions and/or material exposure and readily available data. These are set out on page 28 and currently cover seven sectors. We anticipate developing targets for Agriculture and Commercial Real Estate in the coming year, recognising the emissions data challenges for Agriculture in particular, which we expect to publish in 2024.



Scenario and reference pathways

We have used three climate scenarios and related scenario pathways as a foundation to create reference pathways. The reference pathway is calculated by rescaling the scenario pathway to our banking portfolio for the sector, such that it is equal to our NZBA target baseline emissions in the base year.

- 1) **The International Energy Agency Net Zero Emissions 2050 (IEA NZE 2050)** for sectors where our portfolio clients or their main activities have a global or regional focus beyond the UK. IEA NZE 2050 is adjusted using Transition Pathway Initiative methodology for the creation of an OECD scenario for the power generation sector.
- 2) **The UK Climate Change Committee’s Balanced Net Zero Pathway (CCC BNZP)** from the Sixth Carbon Budget for sectors where clients or customers were solely UK focused.
- 3) **The IEA Energy Technology Perspectives 2020 (IEA ETP 2020)** for the aviation transportation subsector.

The IEA NZE 2050 and CCC BNZP scenarios seek to limit global warming to 1.5°C by the end of the century and encompass little to no overshoot, with low reliance on negative emissions technologies. The IEA ETP 2020 scenario seeks to limit global warming to well below 2°C by the end of the century and is only being used for aviation where the near-term challenges in decarbonising the sector indicate achieving an aviation portfolio 1.5°C target by 2030 is unlikely.



Methodology and data selection

We have continued to apply the emerging industry standard developed by the Partnership for Carbon Accounting Financials (PCAF) for measuring and disclosing financed emissions. We have used the same PCAF approach when developing baseline emissions estimates for our targets and have also used client-related targets and commitments where relevant to inform our target setting activity.



Base year

We select a baseline that is no more than two years from the date the target is set. This can be adjusted, however, if the baseline year represents an abnormal year e.g. 2020 and the impact of COVID-19 on travel, which is why the aviation baseline year is set at 2019 instead of 2020.



Momentum and convergence pathways

We develop a momentum pathway which considers the external policy environment and, dependent on the sector, client commitments.

We develop a convergence pathway which builds on the momentum pathway taking into account considerations such as planned changes to the portfolio and options for internal levers to deliver the target such as green and sustainable financing and client transition plans.

Bank financed emissions transition strategies
 continued

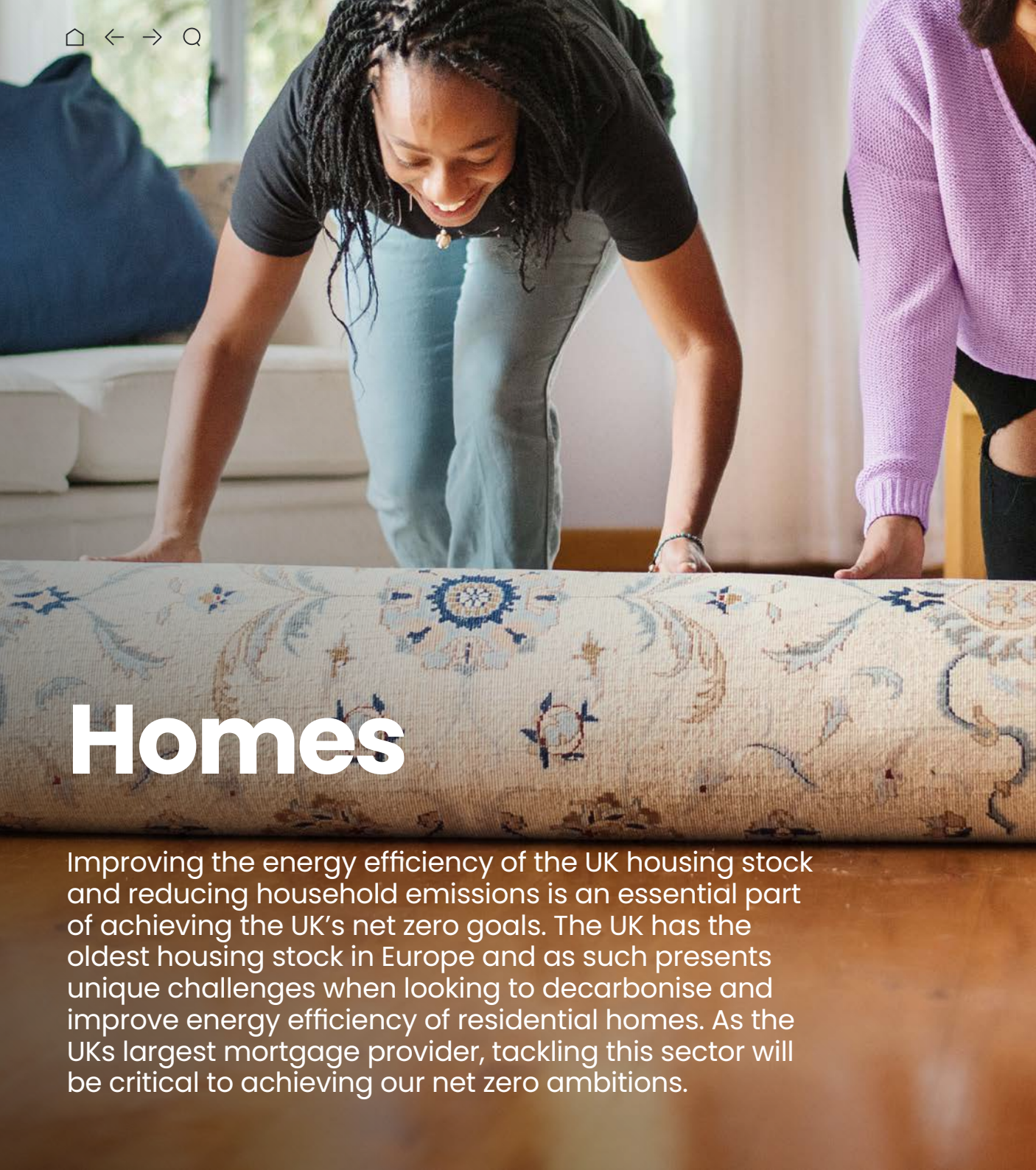
NZBA sector target summary					
Sector	Sector target	Baseline year	Emissions coverage	Sector definition and scope of financial activity ¹	Scenario
UK residential mortgages	<ul style="list-style-type: none"> 41% reduction in emissions intensity to 27.6 kgCO₂e/m² by 2030² 	• 2020	• Scope 1 and 2 emissions ³	See footnote ⁴	CCC BNZP
Retail motor	<ul style="list-style-type: none"> Reduce the emissions intensity of our cars and vans by more than 50% by 2030⁵, reaching: <ul style="list-style-type: none"> 65 gCO₂e/km or lower (cars)⁶ 85 gCO₂e/km or lower (vans) 	• 2018	• Scope 1 and 2 ⁷	See footnote ⁸	CCC BNZP
Automotive OEM ⁹	<ul style="list-style-type: none"> 47% reduction in emissions intensity to 115 gCO₂e/vkm by 2030¹⁰ 	• 2020	<ul style="list-style-type: none"> Scope 1 and 2 (manufacturing) Scope 3 (use of sold vehicles) 	See footnote ¹¹	IEA NZE 2050 (Global)
Transport – aviation	<ul style="list-style-type: none"> 31% reduction in emissions intensity to 633 gCO₂e/rtk by 2030¹² 	• 2019	<ul style="list-style-type: none"> Scope 1 and 2 (client operations and jet fuel use – tank-to-wake) Scope 3 (upstream production and distribution of jet fuel – well-to-tank) 	See footnote ¹³	IEA ETP 2020
Thermal coal	<ul style="list-style-type: none"> Full exit of thermal coal power in the UK by 2023 Full exit from all entities that operate thermal coal facilities by 2030¹⁴ 	• N/A	• N/A	See footnote ¹⁵	N/A
Oil and gas	<ul style="list-style-type: none"> 50% reduction of absolute emissions by 2030 3.9 MtCO₂e (50% reduction from 7.8 MtCO₂e in 2019)¹⁶ 	• 2019	• Scope 1, 2 and 3 ¹⁷	See footnote ¹⁸	IEA NZE 2050
Power generation	<ul style="list-style-type: none"> 81% reduction in emissions intensity to 37gCO₂e/kWh by 2030¹⁹ 	• 2020	<ul style="list-style-type: none"> Scope 1 and 2²⁰ (corporate utilities) Scope 1 (project finance) Scope 3 excluded 	See footnote ²¹	IEA NZE 2050 – OECD

We have announced sector-specific Financed Emissions targets covering 64% of our Bank 2020 assets in-scope of PCAF, excluding cash which is considered to have zero emissions.

- Targets cover on-balance sheet assets.
- 2020 emissions calculation covers 100 per cent of in-scope UK mortgages. Uses EPC emissions estimates for c.66 per cent of properties. Where EPCs are unknown, the average emissions intensity of properties is calculated based on internal property archetypes.
- Includes both the regulated emissions that are captured in an EPC and an estimate of other emissions created from unregulated energy use (for example appliances and cooking).
- Includes UK Retail mortgage lending, including both buy-to-let and owner-occupied mortgages.
- Emissions calculation covers 89 per cent of motor vehicle loans and operating lease assets. Excludes assets that do not have a motor, loans for forecourt dealership stock, specialist vehicles and vehicles where mileage is difficult to estimate. Currently does not apply a loan-to-value ratio for emissions.
- Rounded to nearest gCO₂e/km.
- Includes the emissions from vehicle use, including from electricity used for EVs and PHEVs, in line with recommendations from PCAF.
- Target includes cars and vans associated with leases from Lex Autolease and leases or financing from Black Horse.
- Automotive (OEM) stands for Automotive Original Equipment Manufacturers.
- Target includes Scope 1 and 2 emissions from client operations (manufacturing) and Scope 3 emissions from the use of the sold vehicle by consumers.
- Includes automotive manufacturers and their finance captives. Corporate Loans: auto manufacturers (OEMs) and motorcycle manufacturers.
- A 2019 baseline has been selected due to the significant impact due to COVID-19 on both absolute emissions and emissions intensity due to a reduced number of flights and passenger numbers in 2020.
- Includes corporate loans for airline operators.
- This target is a commitment to exit all entities that operate thermal coal facilities by 2030 and will currently be tracked through lending exposure to the sector as opposed to annual emissions estimates. This target is only applicable to our corporate and institutional clients

(clients with a turnover >£100 million) and excludes any clients within our SME portfolio that would form part of the supply chain to the energy and coal mining entities. The target relating to thermal coal mining excludes commodities trading activities.

- Thermal coal is coal used by power plants and industrial steam boilers to produce steam, electricity or both. Our approach applies to all customers involved in the following activities: coal mining (including thermal coal exploration, coal mine construction and coal mine operation), energy utilities, coal power generation and provision of services or supply of equipment to coal-fired power stations and/or thermal coal mines.
- Our target is to reduce the absolute financed emissions from the oil and gas sector by 50 per cent from a 2019 baseline. The 2030 absolute financed emissions value may change if the baseline is updated in future years as better data becomes available.
- Oil and gas Scope 3 estimates reflect the scope of the oil and gas sector target, based on drawn lending for primary sector clients in extraction, refining and transport via pipeline, including commodities trading arms of supermajor oil and gas clients, and not including support services.
- Target includes clients related to the sectors of extraction, transport via pipeline, refining and the commodity trading arms of our supermajor clients. We have excluded support services and other commodity traders from the scope of our metric due to data limitations and lack of alignment towards the scenario pathway selected.
- Emission calculation includes Scope 1 and 2 emissions attributed to lending to corporate and project generation activity, and Scope 1 emissions attributed to project finance loans to power generation activity. It excludes transmission and distribution financing.
- Scope 2 is the intensity of electricity used by the corporates in operation activity.
- Includes corporate loans to corporate power generating utilities and project finance for specific power generating projects.



Homes

Improving the energy efficiency of the UK housing stock and reducing household emissions is an essential part of achieving the UK's net zero goals. The UK has the oldest housing stock in Europe and as such presents unique challenges when looking to decarbonise and improve energy efficiency of residential homes. As the UK's largest mortgage provider, tackling this sector will be critical to achieving our net zero ambitions.

We recognise the role we can play in educating customers on how they can reduce emissions in their home, and in the provision of financing options to support them to improve the energy efficiency of their properties. However, we will not be able to achieve our targets acting alone – the collective action of policy makers, financial institutions, industry leaders and consumers is required.

We understand that there are no easy solutions; retrofitting properties can be expensive with long payback periods. It can be a difficult area to navigate for our customers and we expect those wishing to make changes will be faced with supply chain issues if not scaled to align with increasing demand. Further, there are challenges across the industry concerning EPC data and coverage, resulting in limitations with initially engaging customers and tracking progress of changes made at a property level.

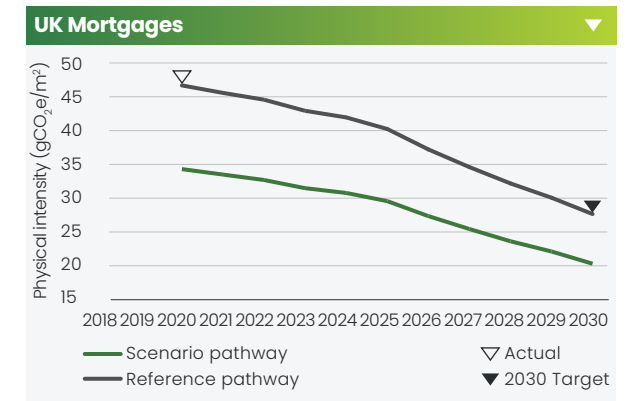
Despite market challenges, we understand the importance of taking action now. This is required not only to address carbon emissions, but in doing we can also seek to address interrelated issues, such as fuel poverty and wellbeing issues. We know that social housing providers and buy-to-let landlords also face similar challenges. By supporting these to transition alongside homeowners, we are also supporting our wider purpose focus areas of improving access to quality housing and greening the built environment.

Given this focus, our Citra Living business has been established to improve access to good quality and sustainable rental housing. For 2023, Citra are targeting all new homes to achieve a minimum of EPC B and are undertaking a retrofit pilot to upgrade existing private rented homes.

Our investments in renewable energy noted within the transition plan, and supporting the energy sector to transition, will further support the decarbonisation of the energy used in homes.

Targets

We have developed a 2030 target for our Residential Mortgage portfolio which requires a 41 per cent reduction of financed emissions intensity (Scope 1 and 2) from a 2020 baseline, from 46.5 kgCO₂e/m² to 27.6 kgCO₂e/m² by 2030.



41%▼

**Residential mortgages
emissions intensity
reduction (gCO₂e/m²)
between 2020 and 2030**

Implementation strategy

We are on a mission to improve the energy efficiency of Britain's homes; our strategy to achieve our targets covers four priorities:

- Increase customer awareness and support customers to develop an understanding of their transition plan to a more energy-efficient home
- Develop propositions that encourage customers to act more sustainably, either through purchasing energy-efficient properties or retrofitting existing homes
- Form enduring strategic partnerships that support and facilitate the transition of UK homes to net zero
- Develop targeted external engagement and lobbying activity to support building an external environment that will facilitate the achievement of our emissions reduction targets

We are aiming for £10 billion in green mortgage lending¹ by 2024 and currently offer a range of propositions to support customers when buying or improving their home:

- We offer additional incentives for more energy-efficient properties covering EPC bands A-B for residential mortgages and EPC bands A-C for buy-to-let landlords. Since 2021, we have offered a cashback initiative for residential customers purchasing an eligible property and since 2022, a rate discount to Birmingham Midshires customers with eligible buy-to-let mortgages
- Since 2020 we have continually developed our Halifax Green Living Reward and Lloyds Bank Eco Home Reward offers whereby customers can receive up to £1,000 cashback when they make energy efficiency home improvements. We have seen increased engagement and uptake each year with our latest promotion seeing a sixfold increase in registration volumes versus our initial launch. The November 2022 re-launch of the Green Living Reward included our partnership with Octopus Energy to provide affordable, energy-efficient heating solutions for our customers
- Our online Home Energy Saving Tool developed in collaboration with Energy Saving Trust enables homeowners to identify where energy efficiency improvements can be made with a personalised plan. Over 25,000 action plans have been generated since launch

In tandem with our propositions, we also seek to engage with customers through awareness campaigns and

articles. Our Halifax Green Living and Lloyds Bank Eco Home Hubs provide education and awareness materials to help customers understand what energy efficiency improvements they can make to their homes. The Hubs signpost our Home Energy Support Line where homeowners can access impartial advice on improving home energy efficiency. In addition to this, throughout 2022 we have continued with our events programme together with the Energy Saving Trust, to deliver a series of Green Home events to help customers tackle barriers associated with sustainable action within the home.

Going forward we will continue to focus on the priority areas of our strategy, using the insights of our 2022 activity to inform future developments, whilst seeking to improve data coverage and further partnership opportunities.

Risks and dependencies

We know that reaching net zero for UK homes will require collective action from a broader group of stakeholders. There are many significant challenges in this sector that need addressing to make progress, these challenges include:

- Retrofit measures typically have poor payback periods and large upfront capital requirements, which are exacerbated in the current economic climate where customers priorities may shift in the face of a cost-of-living crisis
- EPC data has many limitations, for example they are often outdated and do not reflect any energy efficiency updates to homes. This results in challenges when setting emissions targets, monitoring emissions, and supporting customers to transition
- The retrofit supply chain is not robust enough to fulfill the expected demand required for mass adoption. Investment is needed to increase skilled labour and the supply of materials and equipment to reduce cost to implement such measures
- Uncertainty around future Minimum Energy Efficiency Standards (MEES) does not provide the incentive required to encourage customers to act. While there have been good developments in available government grants, for example the Boiler Upgrade Scheme, further incentives are required
- Decarbonisation of the UK electricity grid is key as it is the largest expected contributor to UK housing emission reduction by 2030
- While we are seeing more customers think about energy efficiency, greater public awareness is needed to drive the level of adoption required to decarbonise the UK housing stock

Engagement strategy

Our activity alone will not achieve the emissions reductions required to transition to net zero and therefore support from the government is required to build further momentum and awareness, for which we have developed key policy asks:

- 1) Put in place long-term funding for incentives underpinned by regulatory certainty
- 2) Accelerate improvements to EPCs so they provide an accurate, up-to-date and robust standard for measuring the energy performance of a home
- 3) Leverage stamp duty to incentivise and drive energy-efficiency improvement works
- 4) Encourage employers to support employees to undertake energy improvement measures with tax incentives
- 5) Develop and deliver a comprehensive strategy to ensure the UK has the skills and standards it needs to deliver the retrofit revolution and benefit from new, green jobs across the UK.

Despite existing challenges that we have highlighted regarding EPCs, and the need for government support to improve them, they remain an integral part of measuring our success against our sustainability ambitions. We continue to strive to improve the EPC profile of our portfolio and an indication on how we have transitioned from 2021 can be found within the Additional Information section on page 70 or alternatively within our financial statements.

We are working with industry as part of the NextGeneration Executive Committee to support the building sector to transition and deepen relationships between housebuilders of all sizes. We have supported the creation of national sustainability standards alongside Homes England and the UK Green Building Council, contributing to the development of standards tailored towards the scale of the housebuilder.

As a result, with our support, two new standards have been developed by NextGeneration – NextGeneration Project and NextGeneration Core; both with the aim of helping support small and medium-sized housebuilders assess their own sustainability performance.

To complement these new sustainability standards for UK housebuilders, we also launched our own Sustainability Finance Framework. One of the first of its kind to be led by a UK financial institution, this sets out how we will help housebuilders access finance to build more sustainable homes through our financing propositions.

¹ New mortgage lending (2022-2024) on new and existing residential property that meets an Energy Performance certificate (EPC) rating of B or higher.

In action

We have agreed a strategic partnership with Octopus Energy to provide energy efficiency home improvements to our customers.

The first scheme of the partnership will offer lower cost air-source heat pumps to UK households. The move is designed to support the decarbonisation of domestic heating and encourage the retrofit of existing UK properties. The pilot has launched through our Halifax brand as part of our Green Living Reward scheme. Customers using mortgage borrowing to fund the switch to an air-source heat pump will benefit from £1,000 cashback on completion of the installation. When used in conjunction with the Government's boiler upgrade scheme, which provides grants of £5,000, the cashback brings the cost of installing a heat pump to as low as £2,000, which could mean heat pumps for some homes will cost less than many new gas boilers. Our partnership with Octopus highlights the power of collective parties working together and supports our strategy to help move the UK towards net zero. We will continue to play our part in reaching net zero and we will continue to support and encourage our customers to make greener choices for their home.



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency

SDG 11.a: Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning.

SDG 17.17: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.



Citra Living

Formed in 2021, Citra Living exists to provide a great rental experience in sustainable homes and communities. As a new area of the business, we are currently in the process of scoping and shaping a Citra sustainability strategy aligned to our Group sustainability ambitions. Much of the initial work will involve putting in place the data to define and measure baselines, understanding our impacts and the opportunity to drive improvements as we grow our pipeline of homes.

Our initial ambitions are set out to the right. Due to the early stage of the Citra Sustainability Strategy development we expect to evolve these and develop more in the coming years, including how we will work with partners to deliver. Most importantly, we need to focus how our efforts can also benefit the people who live in the properties we own, for example through lower energy consumption, supporting lower carbon transport options and greener more biodiverse places to live.

We aim to update accordingly as part of our future Group climate transition plan updates and TCFD reporting.

100%

From 2025, all new Citra schemes to meet the Future Home Standard

Citra areas of focus		
	2023	By 2025
Data and strategy	<ul style="list-style-type: none">Establish an operational emissions baseline covering our operational Scope 1, 2 and 3Establish a Scope 3 supply chain emissions baselineEstablish Citra data and baseline requirements, and produce responsible business strategy and targets	<ul style="list-style-type: none">2025 targets will be calculated as part of baseline and targets work in 2023
Building standards	<ul style="list-style-type: none">10% of new projects signed up to NextGen	<ul style="list-style-type: none">100% of new Projects delivered in accordance with NextGen reporting criteriaFrom 2025, all new schemes to meet the Future Home Standard, with an ambition to achieve 50% on new homes by 2024
Biodiversity	<ul style="list-style-type: none">Ambition for a 10% biodiversity Net gain for new developments	<ul style="list-style-type: none">Explore achieving a 20% biodiversity net gain for Cita schemes started in 2025
Travel	<ul style="list-style-type: none">Electric charging points available on all new schemes from 2023 where relevant	<ul style="list-style-type: none">All new homes with on-site parking to have EV charging points

In action
Supporting
Cruden
Group



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency.

SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

SDG 17.17: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

The Cruden Group is one of Scotland's largest development and construction companies, delivering around one out of every 15 new homes in Scotland. Over an 80-year heritage, the business has built or modernised over 135,000 homes, and sees sustainability as a critical part of its continued growth and success. Cruden has been involved in three landmark net zero projects with the City of Edinburgh Council and is committed to carbon reduction initiatives across a significant proportion of their forward portfolio, including the installation of low-carbon heating solutions. They also specialise in mixed tenure developments to improve access to quality modern housing to all segments of the community, and through the Cruden Academy have continued to encourage young people into the industry, supporting the career progression of nearly 60 apprentices and trainees in their most recent intake.

Kirsty Henderson, Cruden Group's sustainability expert, commented: "We recognise the role housebuilders can play in influencing outcomes for generations to come. We're committed to creating sustainable futures by delivering low-environmental impact new homes and by supporting the communities in which we work. Next Generation is a robust process that encourages us to think mindfully about what and how we deliver our projects through detailed benchmarking, and it affords us the opportunity to make continual improvements as we work towards achieving our ESG goals."





Transport

Transport has, since 2016, been the highest-emitting sector in the UK representing 24 per cent of total emissions in 2020¹. To reach decarbonisation goals, there will need to be fundamental changes in the way the sector operates, and therefore how people and goods move around. As described in the UK’s transport decarbonisation plan, while a shift from fossil fuels to electrical or other low-carbon alternative power sources is necessary, this alone will not be sufficient. In places like cities with limited space there is a shift needed from individual motor vehicle use to options such as public transport, e-scooters, cycling and walking.

The sector involves not just transport operators but also those companies involved in manufacturing vehicles. We must therefore consider how to support vehicle manufacturers to produce cleaner more efficient vehicles, as well as the development of greener alternative fuels.

This means we need to consider the wider changes needed across the transport sector and how our retail and commercial banks can play different, yet complementary, roles in supporting our customers to transition.

Our transport target prioritisation is based on financial exposure and materiality, sector emissions intensity and the existence of established methodologies for target setting.

Our rail and shipping activities within the transportation sector have been excluded, based on materiality of our exposure. Our road transportation activities involve a mix of businesses of differing sizes, including many small businesses, presenting data challenges that prevent us from setting a road transportation (road passenger and freight) target at this stage. We will look to cover the remaining NZBA high priority sub-sectors within Transport in future reporting updates over the next 18 months and we will keep our external sector statements under review.

50%▼ Car and van emissions intensity reduction (gCO₂e/km) between 2018 and 2030

¹ Final UK greenhouse gas emissions national statistics: 1990 to 2020 – GOV.UK (www.gov.uk).
² Scenario pathway based on a linear interpolation between 2018 and 2030 CCC BNZP scenario data.

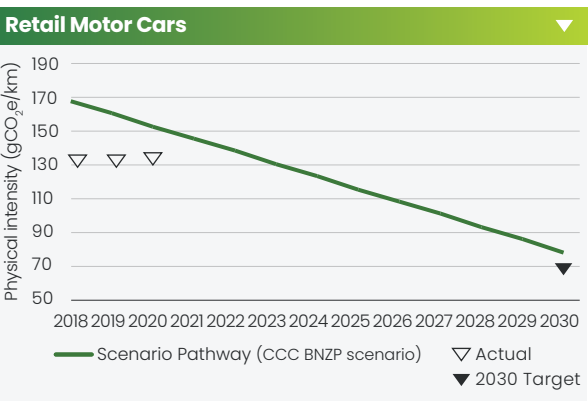
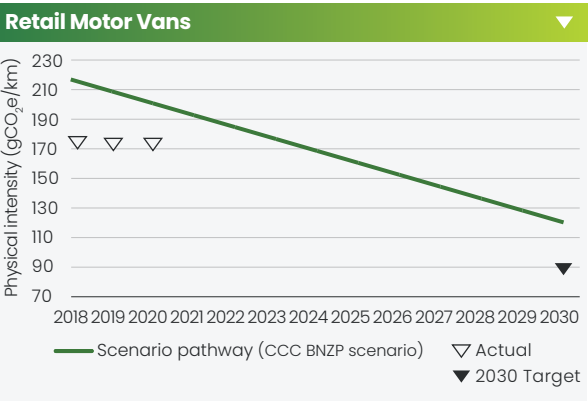
Retail motor

As a UK-focused bank we play a significant role in the whole ecosystem required to successfully transition towards a sustainable transport model. The UK government ban on the sale of new petrol and diesel vehicles by 2030 is a good example of how bold policy, that provides a clean and enduring direction, can be a catalyst for an effective transition.

Our Retail motor business leases vehicles through Lex Autolease and finances vehicles through our Black Horse and Online Car Finance subsidiaries. Over 1.1 million vehicles on the road today are funded through our business, including over 118,000 low emission vehicles.

Targets²

Reduce the emission intensity (Scope 1 and 2) of the cars and vans we lease or finance by more than 50 per cent by 2030 (from a 2018 baseline) of 129 gCO₂e/km (cars) and 170 gCO₂e/km (vans), reaching 65 gCO₂e/km (cars) and 85 gCO₂e/km (vans) or lower.



Transport continued

Implementation strategy

As a Group we are well prepared for the transition from Internal Combustion Engine (ICE) cars to Electric Vehicles (EVs), but alongside financing, it will need the government, as well as the energy and motor industries, to work together to ensure that we have the confidence of the public as we move to sustainable forms of transport.

We have committed to providing £8 billion of green lending for new battery electric and plug-in hybrid electric vehicles by 2024. In 2022 we provided over £2 billion of this funding.

Risks and dependencies

The current supply chain and chip shortages that are being experienced within the sector are the biggest risks to the transition to electric. These challenges need to be addressed, alongside the generally higher vehicle purchase cost which remains a significant barrier to adoption.

In order to mitigate these risks, there are a number of dependencies that must be considered including traditional Automotive Original Equipment Manufacturers (OEMs) shifting their product mix from ICE to EVs; growth of consumer demand, for both new and used EVs, and the significant scaling-up of charging infrastructure and investments in the electricity grid to support this.

£2.1bn
over £2 billion in green lending
for new battery electric and plug-
in hybrid electric vehicles in 2022

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817286/EHS_2017-18_Households_Report.pdf

Engagement strategy

We want to work with policy makers to ensure we can establish an attractive marketplace for used EVs as well as work to expand the UK's charge point infrastructure. As a leading UK provider of greener fleets for businesses, and an enabler to access more environmentally friendly vehicles for our customers, we are confident that we can help meet the challenge of keeping the nation moving in a more sustainable way up to – and beyond – 2030.

Investment is needed to increase the accessibility and affordability of charging infrastructure for residents. This is especially crucial for the c.20 per cent¹ of UK residents who reside in housing blocks and who are most likely to rely on public charging infrastructure, which is much more expensive than using home energy, exacerbated by a difference in VAT rates. This could create much greater demand in communities who would otherwise find it difficult to transition to EVs.



We are working with industry initiatives and partnerships to help accelerate change, these include:

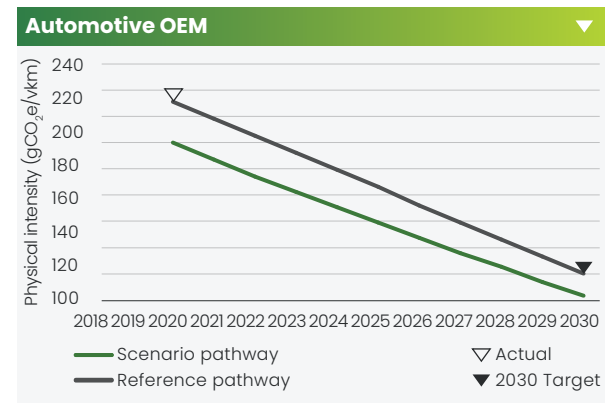
- The Climate Group – UK Electric Fleets Coalition: We joined the steering group of The Climate Group's UK Electric Fleets Coalition in 2021 as part of a small group of business leaders using their market experience to advocate for UK policy measures to accelerate the transition to electric cars and vans, such as stimulating EV supply and investing in EV charging
- Electric Vehicle Fleet Accelerator (EVFA): We joined in 2021 to help address challenges by providing a platform for members to collaborate, identify potential solutions and leverage aggregate corporate demand to support a joint commitment to buy 100,000 British manufactured EV vans by the end of the decade or sooner if availability allows

Automotive Original Equipment Manufacturers (OEM)

As a large part of the transport system, the automotive sector is critical to achieving net zero global emissions by 2050. The production of vehicles is highly concentrated amongst the world's largest automotive manufacturers. The sector's decarbonisation relies heavily on the transition away from the internal combustion engine (ICE), and towards battery electric vehicles (BEVs) and other low emission alternatives such as hydrogen fuel cell vehicles. With many of our automotive clients already committed to the transition to EVs, supporting their evolution will be critical in decarbonising this portfolio. Our support for current and potential future clients is aligned with these aims.

Targets

We have developed a 2030 target for our automotive (OEM) portfolio that will require a 47 per cent reduction in emissions intensity (including Scope 1, 2 and 3 emissions) from a 2020 baseline of 217 gCO₂e/vkm, reaching 115 gCO₂e/vkm.





47%▼
Automotive OEM emissions intensity reduction (gCO₂e/vkm) between 2020 and 2030

Implementation strategy

We intend to grow sustainable lending, both supporting traditional auto manufacturers' transition (noting that they are critical for sector-wide decarbonisation) and working with newer EV-only manufacturers.

In the coming years, we will expect our clients to set targets which are either in line with IEA NZE 2050 and/or validated by the Science Based Targets initiative (SBTi).

By the middle of the decade, we will be working with our clients to ensure they are performing against their decarbonisation targets; by the end of the decade we expect all our clients to be meeting these indicators.

We will also seek to embed considerations of client targets, commitments, progress and transition plans into our decision-making processes by the end of 2025 as appropriate.

Risks and dependencies

Phase-out of ICE vehicles is dependent on consumer appetite for EVs and the speed of charging infrastructure development and deployment. The policy landscape underpinning these is relatively advanced in the UK compared to some other jurisdictions for our client base, such as the US and Germany; consumer behaviour is expected to mirror this.

As well as traditional Auto-OEMs shifting their product mix from ICE to EV, pure-play EV companies are expected to become key players in the transition of the sector, although all manufacturers are currently facing chip shortages, impacting production capacity and uptake.

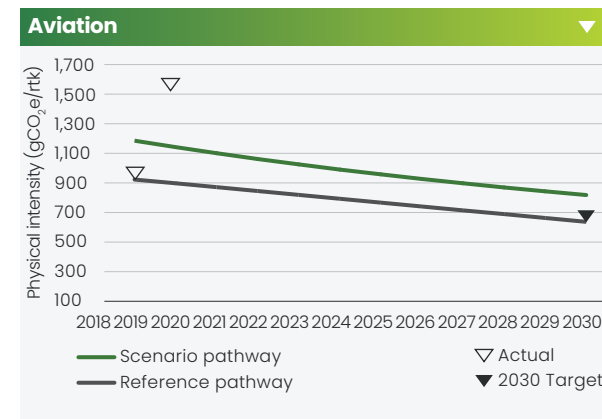
Aviation

Aviation is a hard-to-abate sector, with the required scale-up of sustainable aviation fuels (SAF) and maturing of low carbon propulsion technologies (hydrogen/battery) still many years away. The COVID-19 pandemic has also introduced significant uncertainties around the recovery of the sector and airlines' near-term emissions profile, with load factors still tracking below pre-pandemic levels.

Targets

We have developed a 2030 target for our aviation portfolio that will require approximately a 31 per cent emissions intensity reduction by revenue tonne kilometre between 2019 and 2030, based on the reductions required by the IEA ETP 2020 scenario, reducing our 2019 intensity of 918 gCO₂e/rtk to 633 gCO₂e/rtk by 2030.

Given the uncertainty of achieving the portfolio reduction required by the IEA NZE 2050, we have aligned our portfolio target to a well-below 2°C pathway. We will continue to develop our strategy as client plans are implemented and the sector evolves, using our voice to support decarbonisation of the industry and supporting the aviation value chain to decarbonise by financing the fuels and technologies needed for net zero aviation.



Implementation strategy

Our key strategic lever for this sector is to work with our clients to set targets and develop plans which are aligned with a 1.5°C pathway. While many of our clients have already set targets or committed to set targets aligned with well below 2°C or 1.5°C scenarios, our modelling indicates that due to uncertainties around COVID-19 recovery and technology scale-up, as well as the time lag between our base year and target adoption by clients, this action alone is unlikely to deliver the 2030 emissions intensity reduction for our aggregate aviation portfolio which is required by IEA NZE 2050. It will, however, ensure that in advance of 2030, our portfolio will be made up of companies converging to net zero 2050 in line with a 1.5°C pathway.

Areas for discussion with clients include the need to set ambitious targets to achieve net-zero greenhouse gas emissions aligned with the goal of limiting global warming to 1.5°C. As part of this we encourage clients to share their decarbonisation strategies, including planned capital expenditures with associated quantified emissions intensity reductions. Lobbying conducted by clients should be in line with the goals of the Paris Agreement.

We also aim to play a key role in the transition of the aviation sector through supporting and influencing the wider aviation value chain to decarbonise, including the supply chain and aircraft manufacturing.

We will continue to provide capital to aviation OEMs who create the technology which will enable net zero aviation and we will seek to provide capital for projects which facilitate this. We will also continue to explore the provision of capital to finance development of Sustainable Aviation Fuels (SAF) (either conversion of fossil fuel to bio or new SAF manufacture).

Risks and dependencies

Key dependencies for this sector include continued support from governments globally for SAF production, scaling of SAF capacity and alternative propulsion technologies (e.g. battery and hydrogen), expansion of airport infrastructure to run blended fuel lines and continued evolution of aircraft fleet efficiency.

31%▼
Aviation emissions intensity reduction (gCO₂e/rtk) between 2019 and 2030

Energy: Coal, oil and gas, and power

2022 has seen significant upheaval in the energy sector; the Russian invasion of Ukraine has created immediate concerns around energy security, yet the challenge of decarbonisation still remains. We are committed to playing our part in ensuring an affordable, secure and sustainable energy sector for the UK. Alongside our investment in renewable energy sources and other transition technologies, we will support demand-reduction initiatives, for example through improved energy efficiency of homes.

Coal

It is clear that keeping the Paris Agreement alive means that use of unabated coal must be phased out. The UK government's definition of 'unabated coal' refers to when technologies, which can mitigate coal's impact, such as carbon capture and storage, are not in use. In November 2021, we joined the Powering Past Coal Alliance (PPCA), a coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.

Targets

- Completely exit thermal coal power in the UK by the end of 2023
- A full exit from all entities that operate thermal coal facilities by 2030

We may provide finance to entities towards reducing their thermal coal portfolio (including retrofitting of existing facilities or decommissioning facilities), in line with our phase-out timelines and plan for a full exit from all diversified mining companies that operate thermal coal facilities by 2030.

Implementation strategy

To ensure enough electricity supply for the UK this winter, the UK government has asked a small number of our power generation clients to keep their UK coal-fired power stations available until March 2023. We have already exited all direct financing of coal-fired power stations and had expected to have no clients who operate UK coal-fired power stations by the end of 2022.

This will now be delayed as our clients respond to the UK government's request. We remain committed to a full exit before the government's 2024 target. While this delay is unexpected, we recognise that this is a short-term, precautionary measure to guarantee the UK's power supply and we remain committed to reducing the carbon emissions we finance to net zero by 2050 or sooner.

2023

Completely exit thermal coal power in the UK by the end of 2023

Oil and gas

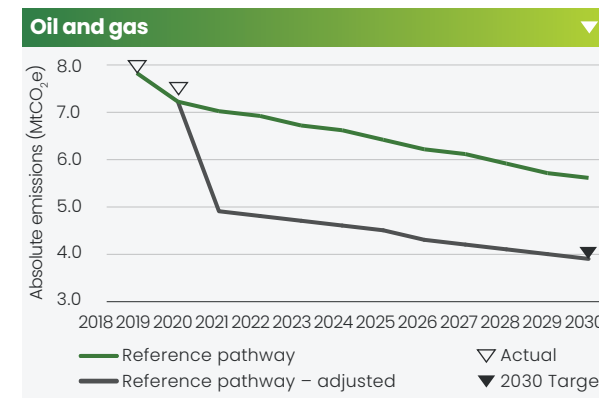
The oil and gas sector plays an important role in providing energy security to the UK and its decarbonisation is critical to limiting global warming to 1.5°C. We take our role seriously in both financing the sector to deliver on our energy needs and helping the sector to urgently decarbonise in order to move the UK to sustainable, affordable and secure energy.

This is a particularly acute challenge given current geopolitical risks. As noted in the UK government's Energy Security Strategy, an acceleration in the deployment of renewables is critical to support energy security and includes commitments to double hydrogen production by 2030 and an increase in ambition to have 50GW of offshore wind in the same timeframe.

Public and private investment in renewable energy and associated technologies will be key to delivering on the multiple energy challenges faced in the UK. We aim to play a role in supporting this strategy where there is alignment with a 1.5°C pathway.

Targets

Reduction in absolute drawn financed emissions (Scope 1, 2 and 3) of 50 per cent in the period from 2019 to 2030 to 3.9 MtCO₂e.



We have used the IEA NZE 2050 scenario as our scenario pathway. This has been used to calculate a reference pathway which has been rescaled to our sector baseline. We have also calculated an adjusted reference pathway that takes into account expected portfolio balance sheet changes from 2021.

50%▼

Oil and gas absolute emissions reduction between 2019 and 2030

Implementation strategy

We have developed several levers and actions we can take to work towards achieving our targets, including participation choices, sustainable financing and supporting oil and gas clients to invest in renewable and green energy initiatives, recognising the need to consider energy security.

The IEA report 'Net Zero by 2050 – A Roadmap for the Global Energy Sector' is clear that no new oil and natural gas fields approved after 2021 are needed in order to maintain a Paris-aligned decarbonisation pathway to net zero. As such we:

- Will no longer provide direct financing (either via project finance or reserve-based lending) of new greenfield oil and gas developments (fields which did not receive an oil and gas authority approval before the end of 2021)
- Will also not provide financing to new clients in the oil and gas sector unless it is for viable projects into renewable energy and transition technologies and clients have credible transition plans at the point of onboarding

Supporting clients and others to reduce their emissions will also be critical and so we must ensure that our lending activity supports this. We aim to put in place guardrails which ensure our lending works towards this goal.

Further, we will work with our existing clients to support them to establish credible transition plans and require existing clients to have their plans in place by the end of 2023.

Risks and dependencies

Key dependencies for this sector include the requirement for energy security to be maintained despite geopolitical risk and increased public and private investment in renewable energy and associated technologies. In that context, our focus will be on supporting our clients to accelerate the adoption of non-hydrocarbon based power generation.

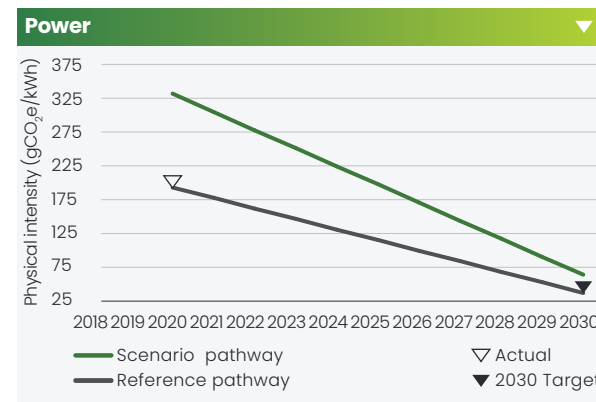
Power

Companies in the Power sector generate electricity from fossil fuels, nuclear, or renewable sources. Over 60 per cent of global generation currently comes from fossil fuels, the primary source of emissions from the sector. Around 20 per cent of power generation comes from renewables today; by 2030 this needs to be over 60 per cent¹. Electricity generation in advanced economies needs to double by 2050 in order to support electrification of heating and transport; our portfolio mix and therefore our targets mirror this.

The scaling-up of renewable power generation which is required for decarbonisation of the power sector brings with it a requirement for a corresponding scaling-up of financing. The maintenance of existing nuclear power generation and the construction of new nuclear capacity have a key role to play in supporting this decarbonisation. We are committed to increasing lending across all forms of low-carbon power generation, in support of British and wider aims to scale these technologies to create new sources of power, and in line with the UK government's goal to achieve net zero power by 2035.

Targets

We have updated our power generation target to align with the reductions required by the IEA NZE 2050 scenario and will now look to reduce the emissions intensity (Scope 1 and 2 for corporate utilities and Scope 1 for project finance) of our portfolio by 81 per cent by 2030 to 37 gCO₂e/kWh from a baseline of 192 gCO₂e/kWh in 2020.



Implementation strategy

We believe that providing renewable energy, alongside insulation and demand reduction in the built environment, is critical to providing energy security and reduced emissions to Help Britain Prosper.

We aim to play a leading role in financing the decarbonisation of the power sector this decade, including financing solar, onshore and offshore wind and other low-carbon technologies. This includes the commitment we've made to support clients with £15 billion of sustainable financing by 2024.

We will engage with clients on their transition to net zero, including an expectation that clients' carbon reduction goals will be aligned with scenarios limiting global warming to no more than 1.5°C and will not over-rely on offsetting to achieve their target (i.e. beyond 'hard to abate' residual emissions).

We will require existing clients in the power sector to demonstrate they are transitioning to net zero and we will provide no new lending/renewal of limits to clients unable to evidence this by the end of 2025. As part of our Powering Past Coal Alliance (PPCA) commitments this means that we will aim to exit any entities with a revenue greater than 20 per cent from thermal coal generation by end 2023 and exit any remaining client which operates thermal coal facilities outside the UK by 2030.

Risks and dependencies

Delivery risks should not be underestimated. These include competition for transactions, supply chain risks, availability and affordability of critical components/metals and availability of skilled resources. Retrofitting of grid improvements in flexibility and interconnections is also critical.

Government policy in the UK and Europe is a key dependency; impacts of the energy security crisis are beginning to be seen, for example through the extension of the lives of coal-fired power both in the UK and abroad. Further dependencies for this sector include government investment and support for renewables projects (including through Contracts for Difference), scaling of nuclear power, as well as deployment of newer technologies on a commercially meaningful scale (such as hydrogen, large scale energy storage for renewables and direct air capture).

81%▼

Power generation emissions intensity reduction (gCO₂e/kWh) between 2020 and 2030

¹ <https://www.iea.org/reports/electricity-sector>.



The year ahead

We know there is more to do to consider broader issues across the Group as part of our environmental sustainability strategy, and to further our understanding of our climate impacts.

New sector targets to be developed

We have not completed our target setting work. In 2023 we will develop two further sector targets, recognising the emissions data challenges for Agriculture in particular.

Agriculture

Scope and set a target for Agriculture, which is our most material sector, in 2023 for publication in 2024.

Commercial Real Estate

Scope and set a target for Commercial Real Estate in 2023 for publication in 2024.

We continue to identify opportunities and develop and deploy programmes to support customers and clients in these sectors to decarbonise their businesses; their implementation will inform our target-setting process.

Working with the Soil Association **(Page 22)**

Continuing to develop our plans

As we begin to develop and build our transition plans, we will continue to reflect on opportunities to support a Just Transition. We were considerate of Just Transition principles when we set our sector targets this year, and in determining the actions we could take to meet our sector targets. We have more to do to understand how this can work consistently across different business activities.

In addition, we're a member of the Financing Just Transition Alliance and Scottish Widows are a member of the Just Transition Finance Challenge. In 2022 Scottish Widows released The Just Way: The case for a Just Climate Transition, which examines how job creation, productivity enhancements and reducing inequality are all possible in the transition to a low carbon economy.

We will use insights from this research and the organisations we are involved with to reflect Just Transition considerations within our environmental sustainability activity.



Expanding our efforts on nature

Our intention in 2023 is to bring forward concrete plans to move forward our nature ambitions with the same momentum as climate. We are prioritising two specific activities across the Group's ambition regarding nature to further build our understanding and allow for a refinement in our approach. This is not an exhaustive list, with additional activities taking place across our Commercial Bank, Scottish Widows and own operations.

Firstly, in order to approach this complex topic we are building our skills and understanding of this subject in order to better understand and act on nature-related risks and opportunities. As part of this, we are defining an education roadmap for 2023, which includes training sessions for the Group Executive Committee, Board and key stakeholders across the Group. We will closely monitor industry developments and guidance, seeking to engage and collaborate where possible. For example, we continue to engage with the Taskforce on Nature-related Financial Disclosures (TNFD) as a Forum member.

Secondly, as highlighted within this report, we are prioritising activities related to select impacted sectors. We will build upon the collaboration with the Soil Association, to understand the nature-related risks and opportunities our portfolio is exposed to in the agriculture sector. We will use the TNFD's guidance to support this assessment. This work will run in parallel with our climate-related activities for the agriculture sector, in order to support our understanding of the interlinkages between climate-nature issues, and determine a holistic environmental strategy. Over time we will roll out our framework and learnings for the agriculture sector to other sectors with material nature-related risks and opportunities.



Scottish Widows

Our target is to halve the carbon footprint of Scottish Widows investments by 2030 on the path to net zero by 2050. We will achieve this by engaging with investee companies to drive positive change.

Ambition and targets

We announced our Scottish Widows climate action plan in February 2022, which supports our overall target to:

Halve the carbon footprint¹ of Scottish Widows investments by 2030 on the path to net zero by 2050 (from 2019 baseline).

Transitioning to net zero is a universal endeavour and will depend on government, industry and wider society acting together, alongside significant technological advancements in high-emitting sectors. Therefore, our own targets are reliant on the actions of others. We will actively manage our climate risks and hold ourselves to account to do all we can in how we run our own business.

Our priority is to be a constructive partner in the transition and actively manage our investments as they undertake their transition journeys. Where we don't see the level of commitment or progress we believe is necessary to keep key climate ambitions within reach, we reserve the right to consider disinvestment.

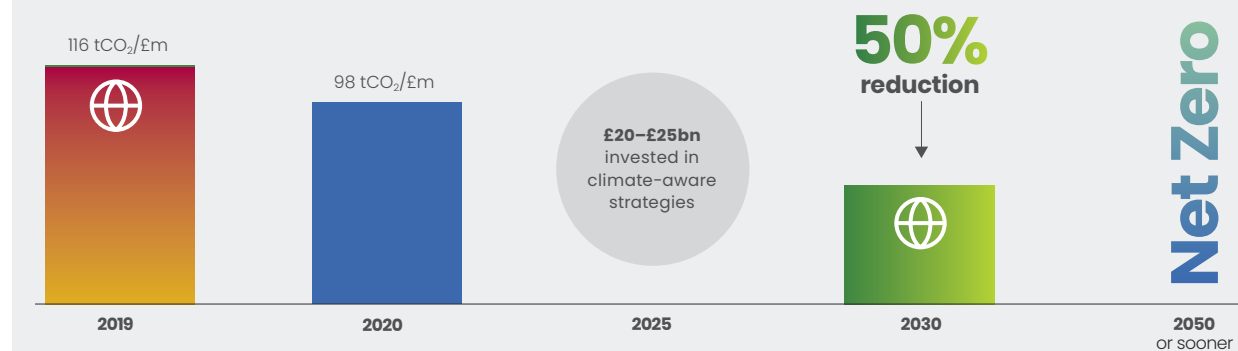
50%

Halve the carbon footprint of our Scottish Widows investments by 2030

Target metric – carbon footprint

This is measured as carbon dioxide equivalents (CO₂e) 'owned' per £1 million invested.

Carbon emission reduction targets



The primary reason for the decrease from FY19 to FY 20 is the fall in actual emissions during 2020 largely due to reduced production and energy usage during the COVID-19 pandemic. We know this is temporary and once reported we would expect a COVID-19 'recovery' of emissions which may cause our financed emissions to increase.

In 2022, we welcomed Embark Group as one of our most recent acquisitions. We are now working with Embark's senior leadership on finding the right approach to integrate their investments into our overall portfolio plans and commitments. The climate strategy for Embark's assets will be communicated in future reports.

¹ See Scottish Widows methodology on **page 71** for explanation of carbon footprint calculation method.

Climate action plan

Our climate action plan outlines four key actions for us to take to achieve our net zero target. During the year the following activities have taken place to help achieve our action plan:

Climate action plan progress	
Target	Achieved in 2022
01 Develop climate-aware investment strategies and climate solutions investments	As at 2022 year end, our climate-aware strategies assets increased by £11.7 billion compared with the previous year. This brings us to a cumulative £17.5 billion, well on the way to meeting our £20-25 billion goal by end of 2025. Our activity has included: increasing our target allocation of the BlackRock Climate Transition fund to 20 per cent of equity in our multi-asset funds; converting our REIT investments to low-carbon tilts; co-development with BlackRock of the Global Corporate ESG Insights Bond Fund; and relaunching the SW Sterling ESG Corporate Bond Tracker with a new mandate.
02 Integrate climate considerations into asset allocation optimisation	<p>Our Responsible Investment & Stewardship Framework, Exclusions and Stewardship policies, climate action plan, fund selection, management and allocation decisions cover all asset classes. Our core appointed investment managers integrate ESG factors into their investment analysis and decision making. Schroders, our strategic appointed manager for active management, integrates ESG factors across asset classes in our active funds.</p> <p>For our passive funds and funds which invest in pooled investments, our appointed investment managers apply ESG screening and engage with investee companies as part of their active stewardship approach, which we oversee, influence and enhance with our own targeted activity. In addition, we have also recently launched an ESG Bond fund, and screened indices for all our mandated passive funds.</p>
03 Exclude high carbon investments that we believe present a high risk of becoming stranded assets	Since 2020, we have operated an exclusions policy. We use this policy to help ensure that our investment approach is aligned with the interests of our customers and in 2022, we reviewed our policy to incorporate tobacco exclusions across the value chain and lowered thresholds on revenue generated from thermal coal and tar sands to a residual amount.
04 Focus stewardship activity on companies failing to address climate change risks	<p>To support decarbonisation in line with our targets, a strong engagement programme is needed with investee companies. Our primary role is to monitor coverage with our appointed investment managers and engage with them to encourage the gradual extension of that coverage.</p> <p>In 2022, we strengthened our Voting Guidelines on climate by naming some of the high carbon sectors we expect Scope 3 reporting from. We also expanded the just transition section of the voting guidelines to encourage companies to incorporate the ILO's 'Guidelines for a Just Transition' and to disclose metrics to measure progress on just transition goals and activities. We continued to engage directly with companies on climate through 2022.</p>



Engagement strategy

As an asset owner we are mindful of our appointed investment managers' role and consider what value we can add in addition – known as additionality. We spend significant time engaging with investment managers and taking part in industry collaborations. To strengthen engagement efforts and deepen understanding of emerging ESG themes, we continue to evolve our stewardship and engagement programme through external collaboration with several initiatives, including collective engagement efforts and contribution to industry working groups. However, our direct engagement with investee companies is an increasing focus of our stewardship. Through 2022 we have continued to conduct our own research and develop direct relationships with companies.

We are continuing to engage with companies on their Net Zero transition plans, targeting companies based on specific criteria to ensure our activity is additional to other engagement by market participants. Of the 49 companies in our biggest 100 holdings which fall under the six most polluting sectors, as per the GICS (Global Industry Classification Standard), 22 are already subject to extensive engagement activity by Climate Action 100+, of which we are members.

In 2021, we wrote to the remaining 27 companies that fell under the six most polluting sectors, as per the GICS classification. For our next stage of engagement in 2022, we decided to concentrate our engagement further by selecting 15 of the 27 companies which were targets for improvement and not covered by Climate Action 100+ engagement.

During our first round of engagement in 2021, we asked companies to commit to a Net Zero plan and outline a credible pathway to transition. For our second round of engagement in 2022 we conducted research on their TCFD reporting, transition plans and approach to nature and biodiversity in order to engage on a company-specific basis.

- Our letters to these companies highlighted:
- Scope 3 emissions are often a company's largest set of emissions which require the most work to reduce. We encouraged companies to disclose and develop plans to reduce their Scope 3 emissions
 - Broader environmental impacts, including biodiversity loss, waste and water management, pollution, and land use and management
 - The Forest 500 ranking identifies companies with the greatest exposure to tropical deforestation risk and assesses them on the strength and implementation of their commitments. We included companies' places in the ranking and encouraged them to take action to reduce their deforestation risk
 - Our report on the Just Transition, which highlights the need to ensure companies are embedding the social aspect of the transition to a low-carbon economy into their plans. We included a link to the report **The just way: the case for a just climate transition**

We will continue to engage with these companies.

Financed emission progress

Our ambition is to align all our investments with limiting global warming to 1.5°C above pre-industrial levels by targeting net zero carbon emissions, by 2050 at the latest. ‘net zero’ refers to achieving a balance between the amount of greenhouse gases, such as carbon dioxide, emitted into the atmosphere and the amount removed from it.

Scottish Widows’ assets in-scope

	Total assets under management (AUM) £bn	AUM in-scope according to PCAF methodology and for which emissions data is available £bn	AUM in-scope according to PCAF methodology and for which emissions data is available %	Estimated total MtCO ₂ e Scope 1 and 2 emissions, for investments (where data is available)	Carbon footprint (where data is available) (tCO ₂ /£m invested ¹)	PCAF data quality score
2020						
Policyholder	144.7	95.6	66%	9.1	97.6	2.2
Shareholder	28.5	14.5	51%	1.2	100.5	3.8
Total	173.2	110.1	64%	10.3	97.9	2.4

	Total assets under management (AUM) £bn	AUM in-scope according to PCAF methodology and for which emissions data is available £bn	AUM in-scope according to PCAF methodology and for which emissions data is available %	Estimated total MtCO ₂ e (Scope 1 and 2 emissions, for investments where data is available)	Carbon footprint (where data is available) (tCO ₂ /£m invested)	PCAF data quality score
2019						
Policyholder	143.1	96.6	68%	11.0	116.6	2.1
Shareholder	26.7	14.4	54%	1.5	112.3	3.7
Total	169.8	111.0	65%	12.5	116.1	2.3

Assets not included in emissions calculations

2020	Policyholder £bn	Shareholder £bn	Total £bn	2019 Total £bn
Assets not in-scope of PCAF methodology: government bonds	11.7	6.2	17.9	18.1
Assets not in-scope of PCAF methodology: other	6.3	4.9	11.2	7.2
Assets for which emissions data is not available	31.1	2.9	34.0	33.5
Total	49.1	14.0	63.1	58.8

Where there is no current PCAF method for calculating emissions those asset types have been excluded from the scope of the calculations at this time. Asset types excluded on this basis are government bonds, derivatives and cash. Collateralised securities (securitised loans) are also excluded on this basis unless data on the underlying loan portfolio is available enabling an alternative PCAF methodology to be followed.

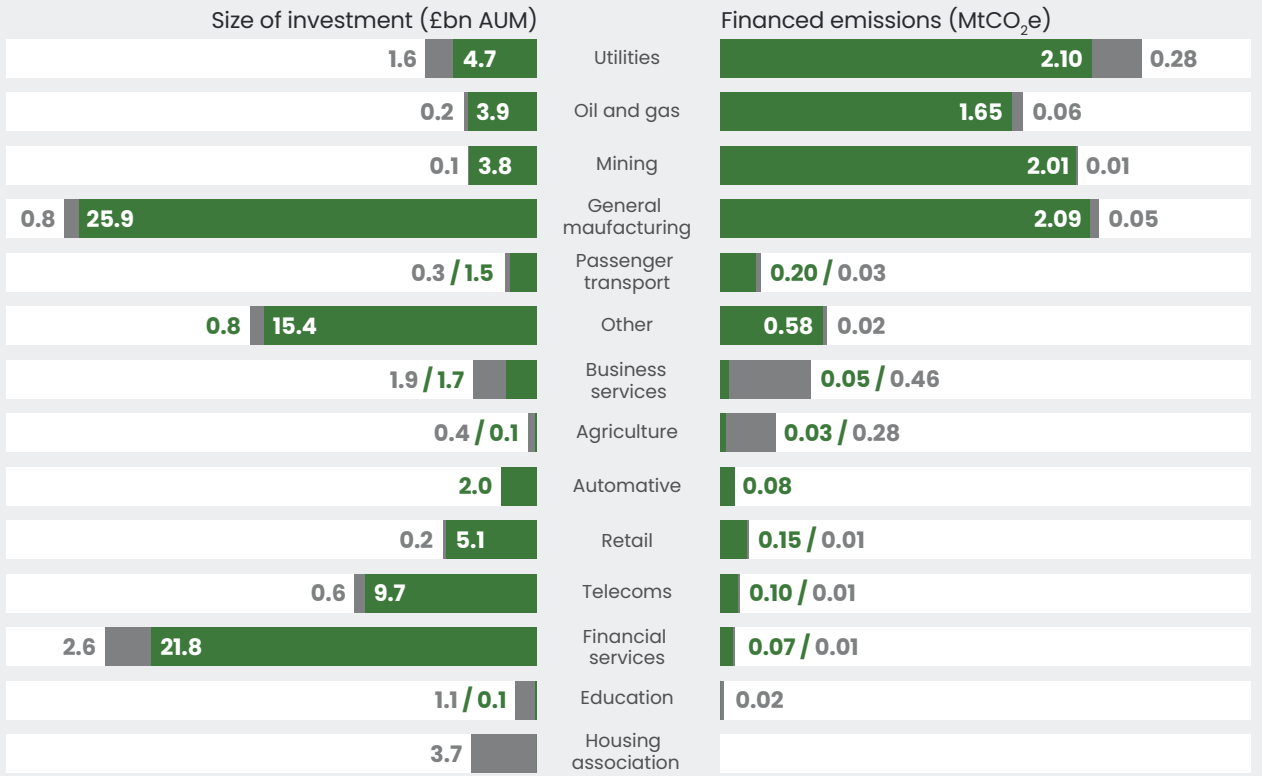
¹ Carbon footprint is equivalent to emissions per £1 million invested. It is calculated using the Market Value of Equity plus Book Value of Debt Investment rather than the AUM in the table where assets are quoted at Market Value. The Market Value of Equity plus Book Value of Debt equivalent Total is £105.2 billion.

Emissions referred to are Scottish Widows’ Scope 3 ‘financed emissions’ which are calculated from the Scope 1 and 2 emissions generated from our investments or lending. This net zero ambition underpins our investment strategies across all asset classes. Execution of these strategies will support consistency between investment and the profile and duration of our liabilities while seeking performance over the medium to long term.

Financed emission breakdown by industry – 2020 data (Scope 1 and 2)

The bar chart below shows a sector breakdown of our total financed emissions. This view is intended for illustrative purposes at this time and sector headings and the allocation of individual companies to sectors may be subject to revision as best practices emerge.

- Policyholder
- Shareholder



Financed emissions by PCAF methodology (Scope 1 and 2)							▼
2020							2019
Policyholder							
PCAF methodology applied	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score	Emissions per £1m invested
Listed equity and corporate bonds	Reported emissions	95.6	100%	9.1	97.6	2.2	116.6
Total		95.6	100%	9.1	97.6	2.2	116.6
Shareholder							
PCAF methodology applied	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score	Emissions per £1m invested
Listed equity and corporate bonds	Reported emissions	6.7	46%	0.4	81.9	2.1	76.7
Business loans and unlisted equity	Economic activity based	5.2	36%	0.3	67.5	5.0	82.6
Project finance	Economic activity based	2.6	18%	0.5	194.7	5.0	257.2
Total		14.5	100%	1.2	100.5	3.8	112.3
Total (Policyholder and Shareholder)							
PCAF methodology applied	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score	Emissions per £1m invested
Listed equity and corporate bonds	Reported emissions	102.3	93%	9.5	96.8	2.2	114.2
Business loans and unlisted equity	Economic activity based	5.2	5%	0.3	67.5	5.0	82.6
Project finance	Economic activity based	2.6	2%	0.5	194.7	5.0	257.2
Total		110.1	100%	10.3	97.9	2.4	116.1

Total assets under management (AUM) includes:

Policyholder: unutilised and with-profit fund assets held in life and pension funds of Scottish Widows Limited and Scottish Widows Europe; mutual funds managed by Scottish Widows Unit Trust Managers Limited and HBOS Investment Fund Managers Limited; and the workplace savings business of Scottish Widows Administration Services Limited. In-scope assets include investment funds structured as insurance contracts. Assets under administration for customers of Schroders Personal Wealth and Halifax Share Dealing Limited are not included. Assets held under Embark Group are currently excluded from these calculations.

Shareholder: assets held by Scottish Widows Limited and Scottish Widows Europe backing annuities and non-unutilised liabilities. Investment balances in other Scottish Widows group companies including the General Insurance business. Policyholder and Shareholder investments are governed by the Responsible Investment and Stewardship Framework, stewardship policy and exclusions policy, while the direct lending part of Shareholder investments are also covered by Lloyds Banking Group External Sector Statements.



Financed emissions by PCAF methodology (Scope 3) ▼				
2020				2019
Policyholder	Total assets under management (AUM) £bn	Estimated total MtCO ₂ e (Scope 3 emissions, for investments where data is available)	Data quality score	Estimated total MtCO ₂ e (Scope 3 emissions, for investments where data is available)
Oil and gas	3.9	20.5	3.1	26.0
Mining	3.8	11.9	2.8	14.5
Total	7.7	32.4	3.0	40.5
Shareholder				
Oil and gas	0.2	0.8	3.0	0.3
Mining	0.1	0.4	3.0	0.4
Total	0.3	1.2	3.0	0.7
Total (Policyholder and Shareholder)				
Oil and gas	4.1	21.3	3.1	26.3
Mining	3.9	12.3	2.8	14.9
Total	8.0	33.6	3.0	41.2

For details on our methodology for calculating Scope 3 emissions see Additional Information section on page 71.

In action

Supporting deforestation-free pension funds



SDG 15a: Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.

SDG 17.17: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

In 2022, we collaborated with Global Canopy, Make My Money Matter, and several leading investors to develop and publish guidance for ‘deforestation-free pension funds’¹. This guidance encourages pension funds to measure and disclose deforestation risk within investment portfolios, and develop strategies to reduce, and eventually eliminate that risk; it is split into six phases, from identifying where deforestation risks can be found in portfolios to implementation and engaging to ensure funds are deforestation free.

We are now working to ascertain how this guidance can be applied to our portfolio by reviewing the directory of available datasets and tools.



Our work to date

Responsible investment is at the heart of our investment approach at Scottish Widows – nature degradation and biodiversity loss is a systemic risk for our portfolios and our beneficiaries. As we consider how best to embrace this as an investment theme, we have advanced our work on responsible investment in other areas, seeking the mitigation of risk in our portfolios, while aiming to prevent future impacts on the environment, society and the economy.

Our thematic stewardship and engagement programme now includes the theme of biodiversity including but not limited to issues such as deforestation, within the broader theme of climate change and the environment. We view the elimination of deforestation as key to a sustainable future and, accordingly, it is one of our engagement priorities.

In our engagement with asset managers and relevant investee companies, dialogue is now beginning to include broader environmental characteristics and factors which affect ecological limits. To support this focus, in 2022 we joined the FAIRR Initiative, which will be a key mechanism for us to collaboratively engage on biodiversity – with expertise in sustainable proteins, the initiative opens up avenues to collectively engage with the food and agriculture industry on identified major pathways to biodiversity loss.

Furthermore, we have advanced our approach to responsible investment and stewardship through the implementation of voting guidelines, which we will use to monitor and, where appropriate, challenge our key managers’ voting policies and practices to influence and encourage them to make their own in-house policies more progressive. Where relevant, our guidelines adopt a stance that investee companies should promote biodiversity, conservation, water quality, waste management and nature-based solutions to allow nature and people to flourish. These guidelines also set out our expectations that companies have (or are actively working towards) adequate policies and programmes on sustainable land and water use to protect biodiversity and address community concerns on land use.

Coming up next

Nature degradation and loss of biodiversity and ecosystem services expose investee companies to transition, physical, litigation and systemic risks, which could impact investment value in the short, medium, and long term. It is therefore important for us as an investor to develop a clear understanding of the potential impact from nature on the risk-return profile of these companies, and develop a strategy to reduce and eventually eliminate risk. We are committed to playing a role in the prevention of further degradation and look forward to working within our industry on contributing to positive nature outcomes.

As we look ahead to further advancing our focus on biodiversity and nature through our stewardship and engagement programme, we have identified participation across future, relevant collective engagement initiatives as a key opportunity through which we will support the fight against biodiversity and ecosystems loss.

Having contributed to Global Canopy’s development of guidance for ‘deforestation-free pension funds’, we have commenced adoption of appropriate areas of this guidance, which will help us to identify and map key areas of deforestation risk within our portfolio and allow us to report on our activity to reduce the risk. As previously noted, we are also considering how we can best embrace biodiversity as an investment theme so that matters linked to biodiversity and ecosystem loss such as deforestation, use of water, waste and pollution, and sustainable food can be included in our investment design. Additionally, to support the pensions industry, we will research the ways in which it can overcome existing challenges and begin to take action on nature and biodiversity across investment activities, publishing our thoughts early 2023.



¹ <https://guidance.globalcanopy.org/further-guidance/pension-funds/>.

Own operations

Reducing the carbon footprint of our own operations is a key part of our sustainability strategy. We're working towards an ambitious set of commitments to change the way we operate as a business and help accelerate our plans to tackle climate change.

We're making strong progress against our targets, but achieving these goals will not be easy, and we will need to keep investing in our buildings, as well as supporting colleagues in the transition towards a greener future.

As part of our journey, we will continue to deploy energy-efficient technology including LED lighting and improved building controls. We will remove all use of natural gas from our estate, replacing gas boilers with low-carbon heating technologies and creating more sustainable branches in communities across the UK. We will also keep investing in sustainable and active travel facilities across our buildings, and working with our supply chain to test new innovative solutions across our operations.

We proudly remained a member of the UK Green Buildings Council and we have renewed our commitment

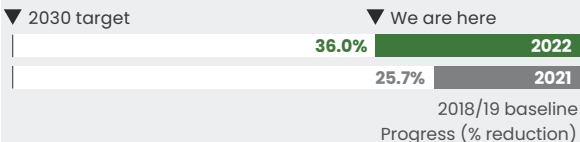
to the World Green Building Council Net Zero Carbon Buildings Commitment to include the new embodied carbon reduction requirement for new build and major refurbishment by 2030. This renewed commitment, along with those we've already made by joining the Climate Group's campaigns on renewable electricity (RE100), energy productivity (EP100) and electric vehicles (EV100), underpins our operational climate ambition.



Operational climate ambition and targets⁶

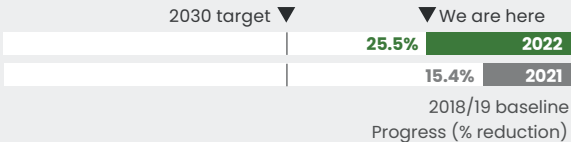
Direct carbon emissions¹

Net zero carbon operations by 2030



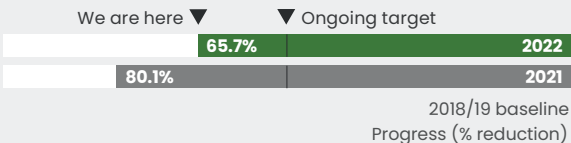
Energy consumption²

Reduce our total energy consumption by 50% by 2030



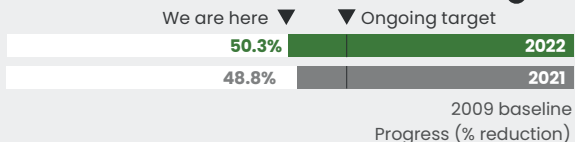
Travel emissions³

Maintain travel carbon emissions below 50% of pre-COVID-19 levels



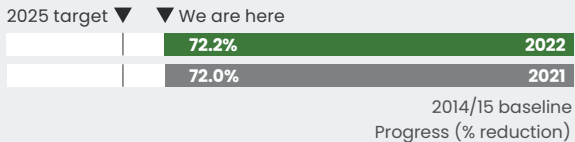
Water consumption⁴

Reduce water consumption by 40% by 2030



Operational waste⁵

Reduce our operational waste by 80% by 2025



- 1 Includes Scope 1 and 2 emissions, market-based approach for electricity Scope 2.
- 2 Includes electricity and gas usage across our full operational estate.
- 3 Includes business travel (covering flights, car journeys, hotel stays, taxis, buses and underground/overground rail trips), and employee commuting, company cars and mobile branches with WTT.
- 4 Includes water consumption across our full operational estate.
- 5 Includes general waste, plastics, mixed recycling, food waste and confidential paper, as well as lower-volume waste such as glass and wood.
- 6 The methodology to derive reported Scope 1, 2 and 3 emissions is provided in the [Lloyds Banking Group Reporting Criteria Statement](#)

Further details on our SECR reporting can be found in our annual report and accounts and ESG performance review.

[Annual report and accounts 2022](#)



[ESG performance review](#)



Implementation strategy					
Target	Net zero carbon operations by 2030	Reduce total energy consumption by 50% by 2030	Maintain travel carbon emissions below 50% of pre-COVID 19 levels	Reduce operational waste by 80% by 2025	Reduce water consumption by 40% by 2030
Achieved in 2022	<p>In 2022, our operational carbon emissions (Scope 1 and 2, measured using the market-based method) fell by 13.9% compared to 2020/21, resulting in an overall reduction of 36% from the 2018/19 baseline.</p> <p>Our key activities in the last year included:</p> <ul style="list-style-type: none"> • Ongoing energy reduction measures and investment across our estate. Further details are outlined in the 'Reduce our total energy consumption by 50% by 2030' pledge update • Ongoing delivery of deep retrofit at our Keens House office in Andover, to make it our first net zero operational carbon office eliminating up to 132tCO₂ a year • The last phase of the development of the ground source heat pump system at our Halifax head office, expected to reduce our gas consumption by over 5.3 GWh a year • An improvement in the accuracy of our refrigerant gas data collection method • Procuring of 100% renewable electricity 	<p>In 2022, our building energy consumption reduced by 11.9% compared to 2020/21, resulting in an overall reduction of 25.5% compared to our 2018/19 baseline. This was achieved through continued reduction of energy use in our properties and working with our supply chain to implement energy saving solutions. Some of our key activities were:</p> <ul style="list-style-type: none"> • Continuing our energy optimisation programme, resulting in 89 GWh cumulative saving in 2022 • Continuing our LED lighting install programme across our offices and branches, resulting in expected savings of 1,482 MWh, the equivalent to powering 417 UK homes • Upgrading our Building Management Systems (BMS) at 231 of our branches, ensuring minimal energy wastage and resulting in savings of 687 MWh • Continuing our Climate Group's EPI00 campaign, confirming our commitment to improve energy productivity through our use of the World Green Building Council's Net Zero Carbon Buildings Commitment 	<p>In 2022, our travel emissions remained 65.7% below our 2018/19 baseline. Despite an increase in commuting and business travel related carbon emissions from previous year, we maintained emissions below the 50% target level. The is partly due to hybrid workstyles remaining in place and the adoption of our 3Ps of Sustainable Travel: Purpose, Planet and Planning. Examples of our key activities include:</p> <ul style="list-style-type: none"> • Investment in sustainable travel facilities across our sites, with 21 of our offices now accredited by Cycling UK's Cycle Friendly Employer scheme • Installation of over 243 electric vehicle charging points at 36 of our sites, and 70% of our offices now having EV charging points installed • Piloting a new car sharing platform for our 3,000 colleagues in Bristol • Organising five sustainable travel roadshows in partnership with Halfords for colleagues in our offices in Chester, Leeds, Sheffield, Dumfermline and Newport 	<p>In 2022, we produced 72.2% less operational waste compared to 2014/15.</p> <p>Our recycling rate is 72% and we diverted 97% of our waste from landfill.</p> <p>Some of our key activities were:</p> <ul style="list-style-type: none"> • Colleague recycling campaign completed across our branch network, ensuring all branches have optimised bin facilities to support improved recycling rates • Reintroduction of incentives for using reuseable cups and removal of sauce sachets, straws and plastic cutlery, avoiding 3.4 million items of single use plastic from our waste streams • Continuing to right-size our printer estate resulting in printer reductions, and the implementation of a colleague engagement campaign aimed at reducing printing, resulting in a 2% reduction in paper waste from 2020/21 despite higher office utilisation 	<p>We have now achieved our water reduction target for the second year in a row. In 2021, our water consumption was 48.8% lower compared to the 2009 baseline, while in 2022 it was 50.3% lower than the baseline.</p> <p>This reduction in water consumption has been achieved mainly by:</p> <ul style="list-style-type: none"> • Implementation of water efficiency measures across our estate • Reduction in the number of buildings that we occupy since the baseline year • Reduction in office building occupancy post-COVID-19
Short term (Aim for 2023)	<p>In 2023, we remain fully committed in delivering our net zero operational carbon ambitions, and we will focus on:</p> <ul style="list-style-type: none"> • Continuing the roll-out of heat pumps and energy-efficient electric HVAC solutions across our branches and offices • Improving our buildings' fabric and roof insulation across branches and offices • Reducing the Global Warming Potential (GWP) of refrigerant gases whenever possible 	<p>Reducing energy consumption remains at the core of our operational climate pledges and net zero journey. In 2023, we will:</p> <ul style="list-style-type: none"> • Accelerate our investment in energy efficiency (e.g. installing LED lighting and improving BMS) and build awareness with our colleagues and suppliers via energy management behavioural campaigns • Test new ideas and innovative technologies to deliver transformational clean energy solutions across our estate • Deliver our first roof-top onsite solar photovoltaic installations at our main offices 	<p>As colleagues start to use office spaces more often, our commuting and business travel emissions will increase. This is why our travel carbon reduction pledge remains a key priority, and in 2023 we aim to:</p> <ul style="list-style-type: none"> • Roll out a car sharing platform and parking policy across the Group • Continue to improve cycling facilities for colleagues, seeking Cycle Friendly Employer accreditation from Cycling UK at each of our main offices • Continue to support the awareness and adoption of our 3Ps of sustainable business travel across colleagues 	<p>In 2023, we will continue our journey to reduce operational waste across our branches and offices by:</p> <ul style="list-style-type: none"> • Continuing to build colleague awareness with communication and engagement activities to help reduce our operational waste, as colleagues have a significant role to play in achieving our ambition • Working with colleagues to help embed the paper-free behaviours adopted during the pandemic. We will review paper-intense processes across the Group • Continuing to right-size our printer estate in offices and branches • Exploring ways to pilot other methods of waste and single use plastic reduction within our catering and cleaning operations 	<p>In 2023, we will:</p> <ul style="list-style-type: none"> • Progress with the roll-out of water-efficient WCs, taps and low water usage urinals across our branches and offices, to align the buildings with our engineering standards and achieve our future target • We will also use the Sustainability Framework 360, our building design tool, to embed water efficiency for new and refurbished offices across our operations
2024 onwards	<p>Beyond 2024, we will:</p> <ul style="list-style-type: none"> • Eliminate the use of natural gas in our buildings by 2030 • Continue to purchase 100% renewable electricity and work towards our ambition to increase our electricity sourced directly from renewable projects (via Power Purchase Agreements) or onsite generation, to at least 60% by 2025 	<p>Beyond 2024, we will:</p> <ul style="list-style-type: none"> • Continue our energy optimisation programme • Integrate our Sustainability Framework 360, our building design tool, as part of the delivery for new and refurbished offices and branches 	<p>Beyond 2024, we will:</p> <ul style="list-style-type: none"> • Embed sustainable travel as the main way of commuting and business travel across the Group • Continue our commitment to The Climate Group's EV100 campaign, installing charging points across all our colleague car parks by 2030 	<p>As more colleagues return to work in our offices, we face a significant challenge in maintaining the low levels of waste measured so far. This is why we will:</p> <ul style="list-style-type: none"> • Continue focusing on reducing our operational waste in line with our target • Embed long-term circular economy principles across our operations, to support and expand our ambitious waste reduction target • Prioritise strategies to prevent waste, prepare it for reuse, recycle, recover other value (e.g. energy), and finally, disposal only if no other alternatives are available 	<p>Reducing water consumption across our operations remains a key priority for us. In the next phase of our water reduction journey, we will broaden our ambition to embed water efficiency as part of our buildings' design process, ensuring that water conservation principles are included across our operations, major offices and branch refurbishments.</p>

Own operations continued

In action

Call for innovation



SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

SDG 17.17: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

Since 2018, we have worked in partnership with Wates Smartspace to promote the uptake of sustainable innovations in the built environment, helping accelerate the transition to net zero.

Together, we launched Green Dragons’ Den style events, with suppliers selected from the Wates Innovation Network (WIN). The partnership has gradually evolved, and in 2021, we launched a public campaign to source technology innovations and to support our ambitious climate pledges.

The Green Dragons’ Den events initially focused on identifying innovative solutions to reduce energy usage, carbon emissions and support our broader operational climate pledges. Together with Wates, we developed an innovative, structured, value-based decision framework to

simplify and de-risk the selection process. The process combines criteria and attributes to help identify preferred solutions using a weighted hierarchical approach.

In 2021, the Green Dragons’ Den evolved into a public campaign and competition to support us in achieving our operational climate pledges. Following a six-month industry awareness campaign, which included a website launch and social media activity, over 110 companies applied for the opportunity to have their product presented to a Lloyds Banking Group and Wates panel, with access to a £100,000 pilot fund to test their technology across our branches and offices.

The Green Dragons’ Den events and 2021 campaign have led to 12 technologies being piloted across our offices and branches, while 95 suppliers are now listed and publicly available through the Wates Innovation Portal.

In action

Connected branches



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency.

SDG 17.17: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

As part of our operational climate targets, we are committed to halve our total energy consumption and achieve net zero emissions by 2030, versus a 2018/19 baseline.

Since 2012, we have focused on an energy optimisation programme to reduce electricity and gas usage across our offices and data centres, delivering cumulative savings of 88 GWh in 2022.

With the Connected Branches project, we have worked in partnership with Mitie through their Connected Workspace technology solutions to develop our energy optimisation capabilities for smaller buildings, and rolled out remote energy management solution at scale alongside other energy efficiency and carbon saving measures such as LED lighting and heating, ventilation, and air conditioning (HVAC) retrofit.

Our Connected Branches project will help us in reducing energy consumption by 8.1 GWh per annum when fully rolled out, and support us in the identification of sustainable and efficient carbon heating solutions for our branch network. Additionally, it will minimise reactive maintenance of equipment through remote connection, optimisation and monitoring, enabling agility of response to issues and preservation of colleague and customer wellbeing.

Following a successful pilot in 101 branches in 2021, we have now expanded the roll-out to around 450 branches, investing over £3.9 million in remote connectivity to manage and optimise the buildings.

As part of our journey towards a greener future, we remain committed to invest in our estate to reduce energy consumption and carbon emissions first, following guidance of the UKGBC Net Zero Buildings Framework.

“At Wates, our ethos is to work collaboratively with our clients, a partnership approach that is built on a shared commitment to achieving exceptional results through innovation. We are very proud to be working with Lloyds Banking Group to seek new innovations that will add to the growing Wates Innovation Network Portal while also supporting Lloyds’, and the collective built environment’s drive for a sustainable future.”

Scott Camp,
Managing Director at Wates Smartspace



“We’re proud to be supporting Lloyds Banking Group and pioneering the use of technology to create more sustainable buildings through the Connected Branches project. By investing in energy optimisation, remote monitoring and more efficient equipment, we’ve demonstrated that the potential carbon and energy savings are significant.”

Phil Bentley,
CEO at Mitie



Opportunities to protect nature at our own sites

We've continued to make steady progress on our plan to improve the way we manage and care for green spaces within our own operations. While our outdoor spaces are relatively small, we aim to make a big difference by managing our many small spaces differently.

Since 2020, we've implemented our new approach to land management across 16 office and branch sites by protecting and restoring over 17,000 m² of green space, creating new habitats and wildlife corridors, and making more space for nature. Working with our facilities management partner, Mitie, we implemented various restoration and biodiversity-enhancing solutions unique to each site and local area. Our approach included introducing 5,130 m² wildflower meadows, 1,000 UK-native tree and hedge saplings providing future shelter and food sources for birds and other wildlife, installing pollinator-friendly beds and planters, building log pile bug hotels using natural materials sourced on-site, pond planting and restoration, and mowing and pruning changes to allow wilder areas to develop naturally.

As an example of our works, we've continued to transform the green space surrounding The Mound, one of our main office sites in Edinburgh. Working with the Scottish Wildlife Trust and the Edinburgh Nature Network, we developed a habitat management plan. In 2022, we completed our butterfly garden, added pollinator-friendly UK-native planting to our east terrace and woodland areas, and successfully tested using nature-based solutions to help reduce flooding in an area of the main garden prone to flooding. Additionally, at Keens House in Andover, we created a biodiversity-led outdoor colleague collaboration space to support both colleagues and nature.

The next phase of our operational biodiversity programme includes broadening our efforts to embed biodiversity in our buildings' design and to define a measurement and reporting structure, enabling us to track and share our progress consistently. This action will be developed in 2023 and will involve listening to and learning from the experts to understand how we can best manage and develop the green spaces we occupy.

In action

360 Sustainability Framework



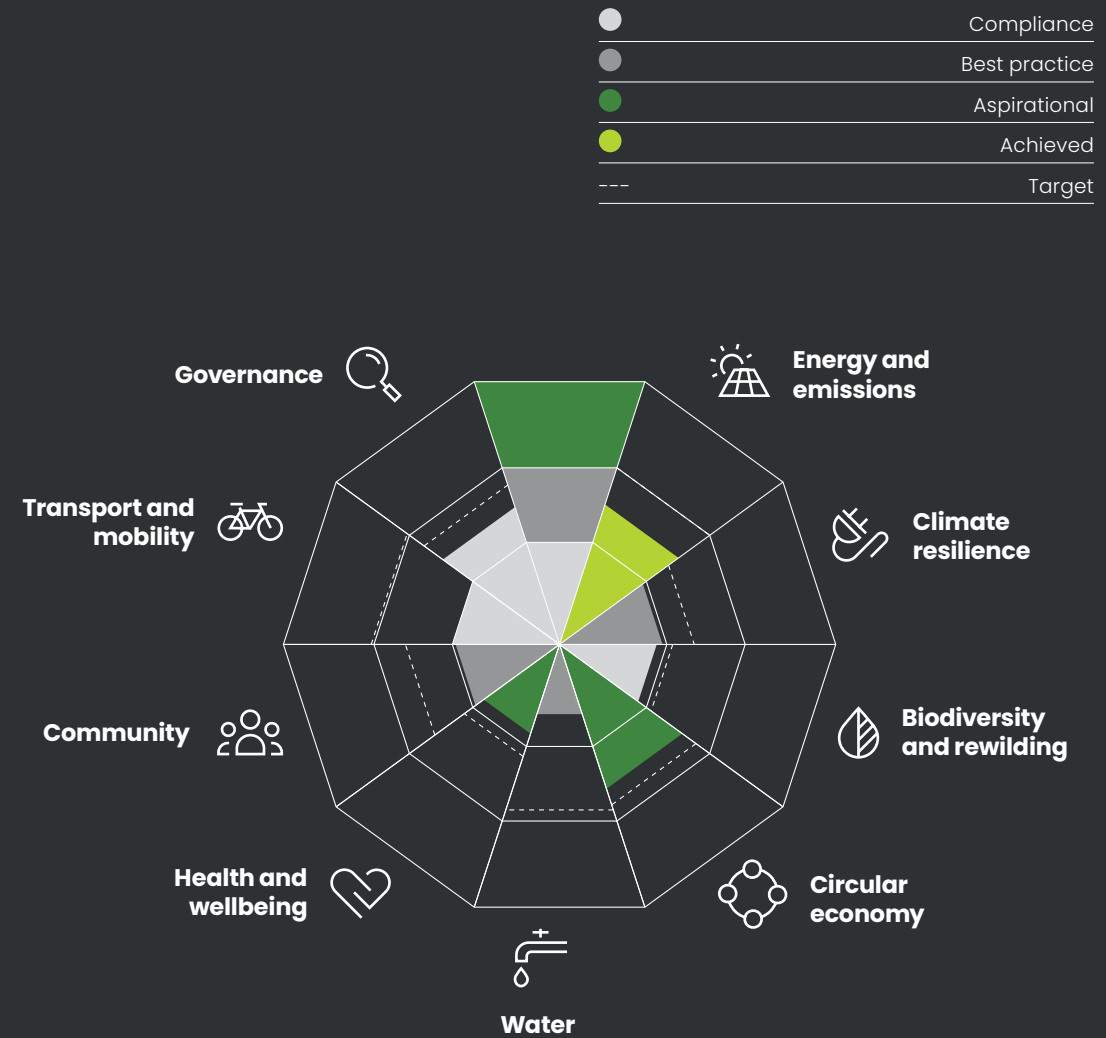
- SDG 7.3:** By 2030, double the global rate of improvement in energy efficiency.
- SDG 9.1:** Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
- SDG 13.3:** Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.
- SDG 15a:** Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.

Working together with Ridge and Partners LLP, we have developed our 360 Sustainability Framework. We have designed the framework to support the delivery of our operational climate pledges at a project level, drawing from a range of industry standards, certifications and best practice guidelines (e.g. BREEAM, WELL, UKGBC, LETI and more). The framework brings together nine core themes, including Energy and Emissions, Biodiversity and the Circular Economy, each representing one of our priority areas. Each theme is underpinned by a set of key principles and requirements in the form of questions, with resulting outcomes falling into three levels of ambition:

- **Compliance** is either a minimum regulatory requirement or minimum advisory level
- **Best Practice** represents current industry best practice guidance and peer comparison that exceeds minimum compliance level performance
- **Aspirational** represents sector-leading and sometimes innovative approaches that are consistent with long-term sustainability objectives

We are now implementing the 360 Sustainability Framework in the design process of our office refurbishments, with a vision to extending to branches in a streamlined version in the future. The Framework provides us with a consistent, transparent and holistic view of sustainability performance and design across our projects, and encourages meaningful engagement with our delivery partners. It helps promote awareness of best practice and aspirational targets, driving innovation and consideration of alternatives to the status quo. Finally, it provides a method of measuring progress and reporting on targets, aims and objectives.

Sustainability Framework 360





Supply chain

Recognising the emissions we generate through the purchase of goods and services, working collaboratively with our suppliers to reduce our Group supply chain emissions is integral to our net zero strategy.

We acknowledge our suppliers have varying levels of maturity in relation to calculating, disclosing and reducing their own emissions. This has informed our approach to engaging with suppliers by initially focusing on those that make the biggest contribution to our emissions and setting clear expectations for them to work towards in alignment with our own net zero ambition.

While we do not have direct control over their emissions, we are committed to understanding the environmental impact of the demand we generate for our suppliers' goods and services, working with our suppliers to share learning and support them on their journey towards meeting that demand sustainably.

To track suppliers' progress, the approach to calculating supply chain emissions aligns to GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard, we acknowledge it relies on estimates and assumptions. We will continue to review our approach and scope of expenditure at least annually and refine this over time in line with evolving best practice and standards¹.

Ambition

In October 2022, we announced our ambition to achieve a 50 per cent reduction in the carbon emissions we generate through our supply chain by 2030 on the path to net zero by 2050 or sooner. Our level of ambition is aligned with a 1.5°C pathway.

Our supply chain emissions

Our emissions are calculated from spend with approximately 2,600 suppliers covering circa 65 per cent of our Group's¹ in-scope third-party spend. We are reporting these emissions for the first time for the period October 2021 to September 2022, which we have defined as our baseline year.

We have aligned the emissions to the GHG Protocol Scope 3 Categories 1, 2 and 4, namely: purchased goods and services, capital goods and upstream transportation and distribution.

The other Scope 3 categories are excluded from our supply chain reporting as they are either reported elsewhere or not relevant to supplier activities (for example downstream Scope 3 categories).

The estimated total carbon emissions from our supply chain are in the following table.

¹ Further details on our emissions calculation methodology and assumptions can be found in the additional information section on page 72.

² Based on calculated emissions from addressable spend with our suppliers in the periods October 2019 to September 2020 and October 2020 to September 2021.

Scope 3 supply chain emissions (tCO ₂ e)		▼
		Baseline/ Current year 2021/2022
Scope 3 emissions by GHG protocol category		
Category 1		
Purchased goods and services		612,806
Category 2		
Capital goods		71,535
Category 4		
Upstream transportation and distribution		63,068
Total		747,409

In early 2022, we sought an independent review of our approach to the calculation of supply chain emissions which led to a set of recommendations on how we could improve our processes and control framework. We are implementing these recommendations and we continue to review opportunities to improve the completeness and accuracy of our third-party spend data used in our emissions calculations. Our Scope 3 supply chain emissions have not been subject to independent assurance.

Implementation strategy

In 2022, we embarked on our journey to reduce supply chain emissions by seeking to align our key suppliers to our own net zero ambition. We have proactively engaged our top 123 suppliers (legal entities) which we estimate contributed to circa 80 per cent of our emissions (from our suppliers) and represented over 80 per cent of supplier spend².

In June 2022, we launched our Emerald Standard, which draws on existing globally recognised disclosure and assessment approaches and sets out clear sustainability and ESG expectations for these suppliers. The standard was launched at our first Supplier Sustainability Summit which was attended by almost 200 supplier colleagues. Our intent is to work with suppliers who share our ambition by encouraging measurement and transparency of their emissions, and adoption of science-aligned reduction strategies on a path to net zero.

We also recognise the need to invest in the capability of our colleagues who directly interact with our suppliers on this important topic. In 2022, we delivered training interventions needed in the short term to support our immediate supplier engagement activity.

The Emerald Standard requirements

To meet the Emerald Standard we are looking for suppliers to:

- CDP climate change**
 - Submit an annual public response to CDP’s climate change questionnaire
 - Achieve an A or an A- score from CDP for their response
 - Disclose Scope 1, 2 and applicable Scope 3 carbon emissions
- Net zero commitment**
 - Have their own ambition to achieve net zero by 2050 with interim targets to reduce carbon emissions by 2030, or sooner
- Science-aligned targets**
 - Define a baseline year with published related emissions
 - Set science-aligned targets, reducing emissions in line with limiting global warming to 1.5°C
 - Publish progress towards achieving their targets
- ESG rating**
 - Have a valid EcoVadis ESG rating (or similar) to at least a ‘silver’ level

Engagement strategy

In 2022 our supplier engagement centred around the Emerald Standard to baseline where our top suppliers are on their journey against it. To support this activity:

- We became a CDP Supply Chain Member in February 2022 and invited 123 suppliers¹ to disclose climate change and carbon emissions data via the CDP platform. Of our top 123 suppliers, 109 disclosed their environmental practices via the CDP platform
- We invited our top 123 suppliers to go through an EcoVadis ESG assessment and share their results with us. Of the 123 suppliers, 105 were rated by EcoVadis

1 123 legal entities invited, equating to 117 Group companies.
2 For CDP, our suppliers 2022 position has been compared against their 2021 submissions where available. Where a 2021 supplier response was not visible to the Group, the data was extrapolated in order to make comparisons.

We have assessed these suppliers against the requirements of the Emerald Standard using the outputs from CDP and EcoVadis where available. We have followed this up with over 100 individual supplier conversations to inform our assessment outcomes.

To establish an indicative view of progress across our in-scope suppliers we undertook a high-level comparison using CDP 2021 disclosures² where available, our EcoVadis network and results from our Emerald Standard assessments. Our intention in 2023 is to engage suppliers to understand their own transition plans with a view to validating our understanding of their current progress and future plans aligned to the Group’s ambition. Additionally, supplier transparency of their full Scope 1, 2 and 3 emissions inventory and coverage of related net zero commitments / science-aligned targets is another area of focus.

We recognise the importance of weighting sustainability criteria as part of our sourcing decisions, running a pilot in 2022 to understand how best to integrate the Emerald Standard into our process. As a result our sourcing process will be enhanced during 2023 with a heightened focus on sustainability-related considerations.

Alongside these activities, we are building long-term capacity and capability across sourcing and supplier management colleagues through a series of e-learning modules covering climate change, net zero and the Emerald Standard principles. These are due for launch in early 2023.

Risk and dependencies





Recognising that we are still in the early stages of our supplier engagement activity, we will continue to evolve and adapt our approach as we learn through our supplier engagement. While we have a level of influence over our supply chain it is acknowledged that to achieve our ambition, we are dependent on external factors such as public policy developments and the action of our suppliers to accelerate the transition to net zero.

During 2023, we intend to:

- Continue to review our approach to calculating Scope 3 supply chain emissions and scope of third-party spend
- Review the reach of our supply chain sustainability interventions and how we can further integrate the Emerald Standard into our sourcing and supplier management activities
- Hold a further Supplier Sustainability Summit to share progress and further understand how we can collaborate and support our suppliers’ differing needs in our collective journey to net zero
- Begin to assess our suppliers’ own transition plans and understand their priorities for emissions reduction

Progress across our key in-scope suppliers

Indicative view of progress across our key in-scope suppliers (legal entities) using insights from CDP and EcoVadis network.

Requirements	Movement	2022 Insight
<div>CDP climate change: emissions disclosure Greater transparency of our supply chain emissions</div> <div><div>2022104</div><div>202182</div></div>	+27%	Of which c. 43% of suppliers appear to disclose full Scope 1, 2 and 3 emissions
<div>Net Zero commitment More than half of our key suppliers have a Net Zero commitment</div> <div><div>202269</div><div>202131</div></div>	+123%	Of which, c. 34% appear to cover full Scope 1, 2 and 3 emissions
<div>Science-aligned targets More than half of our key suppliers have science-aligned targets</div> <div><div>202270</div><div>202152</div></div>	+35%	Of which, c. 41% appear to cover full Scope 1, 2 and 3 emissions
<div>ESG rating EcoVadis network expansion</div> <div><div>2022105</div><div>202136</div></div>	+192%	70% achieved at least a Silver rating



13 of our key suppliers have been assessed as fully meeting all four requirements of the Emerald Standard



In this section

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Governance

Responsible Business Committee chair statement

At Lloyds Banking Group we recognise that we have an important role to play in helping the UK transition to a low carbon economy and this goes hand in hand with our purpose of Helping Britain Prosper. We are committed to supporting the areas where we can have the biggest impact including energy, transport and homes, and to help our customers, communities and colleagues on their journey to a low carbon future.

The Responsible Business Committee supports the Board in the oversight of the Group's policies, performance and priorities as a responsible business, including the Group's environmental sustainability strategy. Our strategy prioritises key areas that will support our ambitions to achieve net zero in our own operations by 2030, our supply chain by 2050 and for financing and investment activities by 2050, with interim sector targets now set for 2030. We also remain considerate of emerging environmental issues including biodiversity loss, and continue to evolve our response to the nature crisis.

As the Chair of the Responsible Business Committee, I am pleased to share in this report the progress the Group has made this year, in line with the key recommendations of the TCFD. Our 2022 report includes our latest emission reduction targets across some of our highest emitting sectors, the progress we have made against our green and sustainable finance targets and our new supply chain ambition. For the first time, we also share our Group Climate Transition Plan.

We have no doubt that our sustainability ambitions and approach will continue to evolve with new innovations, changes in public policy, wider industry collaboration and new partnerships. We will continue to work at pace to deliver on our ambitions, supported by the leadership of the Board. I look forward to sharing our progress with you throughout 2023.



“

I am proud of what we achieved in 2022, not only did we launch ambitious emission reduction targets, but we also backed them up with some great initiatives aimed at supporting customers on their journey to a low carbon future. Ensuring delivery on our ambitions will remain at the heart of the committee’s role in 2023.

Amanda Mackenzie
Chair, Responsible Business Committee

Board Risk Committee chair statement

Alongside development of the Group's net zero strategy, the risks associated with climate change remain a key area of focus for the Board. Our response to managing climate risk will have a long-term impact on our business, our customers and across society. Therefore, it is critical for the Group to manage physical and transition risks we face, while also enabling transition finance within risk appetite.

The Board Risk Committee is responsible for oversight of the risks we face from climate change, including the transition to net zero, to support the Group's Board in meeting its risk governance and oversight responsibilities. The Committee receives regular standalone updates on the Group's progress to develop climate risk management capabilities, ensuring these meet the relevant external expectations, including those from our regulators.

In 2022, the Group's approach to managing climate risk has continued to evolve. This has included engagement across the Group to support our understanding of the key climate risks facing different areas, their impacts on the Group, and the appropriate risk mitigation to support our customers and deliver our net zero ambitions. This has also informed development of our reporting, ensuring climate risk and initial quantitative metrics are included as part of our regular risk reporting to the Board Risk Committee. We have continued to integrate and embed climate and broader ESG risk management into our end-to-end credit risk framework. We have focused on aligning credit appetite and policy with net zero ambitions, and



“

It is critical for the Group to manage physical and transition risks, while also enabling transition finance within risk appetite.

Catherine Woods
Chair, Board Risk Committee

strengthening our credit assessment across our consumer and commercial businesses with new data, tools and MI, and colleague training programmes. We continue to build our climate scenario analysis capabilities, as outlined on pages 63 to 67, and are supporting industry collaboration through the Climate Financial Risk Forum (CFRF). In addition, we have ensured risk oversight and engagement has been undertaken as part of the ongoing development of our net zero strategy and ambitions.

This report reflects the risk management practices we have in place for climate risk, updated in line with the development above. Our disclosures remain consistent with the 2021 recommendations of the TCFD under the Risk Management pillar, and our reporting can be found on pages 56 to 62.

During 2023, we will continue to have focused reviews at the Board Risk Committee. These will consider the development of our climate risk management capabilities, as well as how we start to apply a broader ESG lens in line with wider external focus. Further embedding climate risk management across all parts of the organisation will continue to be an essential component in achieving the Group's sustainability ambitions. We will give particular attention to the delivery of climate-related commitments, data requirements, controls to mitigate greenwashing and development of Board risk appetite metrics. We will also continue embedding climate risk across all credit processes and progressing further from qualitative to quantitative risk assessment where possible.

Audit Committee chair statement

The evolving nature of sustainability and climate disclosure recommendations has been a key consideration for the Audit Committee, supporting the Group’s Net Zero ambition and the transition to a low-carbon economy.

The purpose of the Committee is to monitor and review the formal arrangements established by the Board in respect of the integrity of the financial reporting and narrative reporting of the Group, the independence and effectiveness of the internal and external audit functions, the effectiveness of the internal controls and the risk management framework and the adequacy and security of the arrangements for whistleblowing. This includes the statutory audit of the consolidated financial statements and the independence of the statutory external auditor. The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year.

Climate-related disclosures in accordance with TCFD recommendations received increased attention from the Committee for the 2022 financial year. In particular, the work to assess the impact of climate change on the financial statements was reviewed, including the development of the control environment to support climate-related disclosures.

While the Committee notes that there has been significant improvement in the Group’s climate change reporting within the annual report and accounts, it believes that further enhancements will be possible as the availability

of data increases. During the year, the Committee has discussed with management improvements that can be made to the Group’s climate-related disclosures within its financial statements. The Group has included within its 2022 financial disclosures:

- an analysis of vehicle types for the Group finance lease receivables and operating lease assets
- the Energy Performance Certificate (EPC) distribution of the Group’s UK mortgage book
- further detail on the climate-related risks impacting the Group’s pension schemes and more detailed information on sector-specific lending

Assessing and monitoring the climate impact on its financial statements remains a key priority for the Group. The Committee is focused on the rapidly evolving accounting practices, reporting and assurance requirements, most notably the new reporting standards expected in 2023 from the International Sustainability Standards Board (ISSB), along with those in the US and Europe. The Committee has discussed with management its plans for these developments, including the processes being put in place to ensure that the disclosures are robust, granular and specific to the Group.

While recognising that there is more to be done in future years, the Committee is satisfied with the Group’s climate-related disclosures in accordance with the TCFD recommendations for the year ended 31 December 2022.



Assessing and monitoring the climate impact on its financial statements remains a key priority for the Group.

Sarah Legg
Chair, Audit Committee

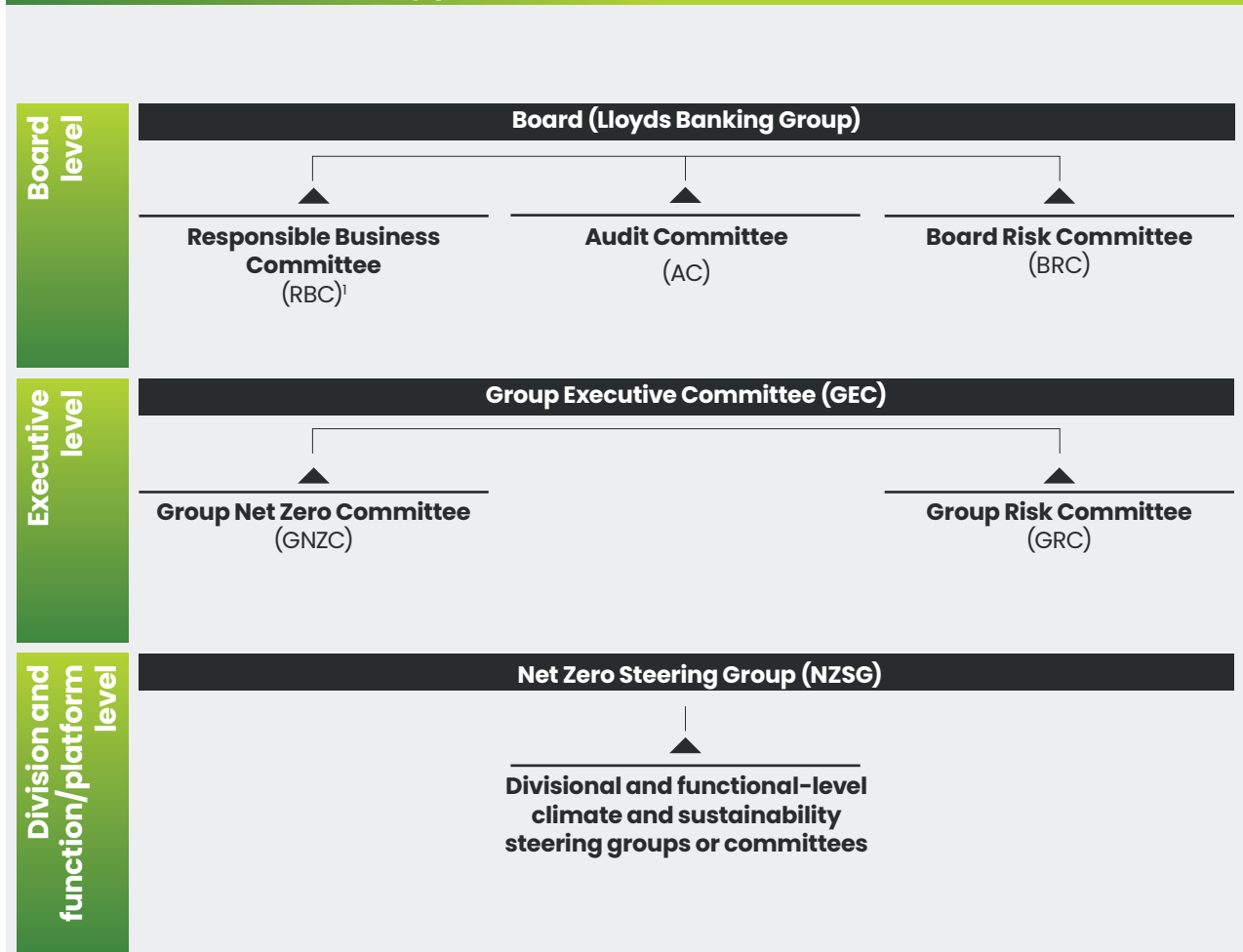


Governance structure

Given the strategic importance of our sustainability ambitions and commitment in managing the impacts arising from climate change and broader environmental issues, our governance structure provides clear oversight and ownership of the Group’s environmental sustainability strategy and management of climate risk.

Climate-related responsibilities at Board level are in place across the Responsible Business Committee, Audit Committee and Board Risk Committee, with shared membership across these Committees to ensure appropriate coordination and cooperation on climate-related matters.

Our environmental sustainability governance structure



¹ The Chair of the RBC, Amanda Mackenzie, is a Non-Executive Director on the Board, the Remuneration Committee and the Nomination and Governance Committee, and ensures sustainability is discussed and considered by the Board. Amanda has extensive experience in ESG matters, including helping launch the United Nations Sustainable Development Goals.

Board and executive-level oversight

Climate change and sustainability are key areas of focus at Board level and are among the areas assessed in consideration of the Board’s skills, experience and knowledge. Further details are provided on page 88 of the Group’s 2022 annual report and accounts.

The Board and executive-level teams are engaged on a regular basis, receiving regular briefings to build understanding and capability and also attend relevant external briefings. Training sessions have been held for the Group’s Board and its key sub-groups’ Boards, to develop their understanding of climate risk. This is intended to equip the Boards to meet regulatory expectations, including the key climate considerations specific to the Group, and also be in a position to help direct the Group’s response and strategy.

Environmental sustainability is an integral element of our Group strategy and supporting the UK’s transition to net zero is closely aligned with our purpose of Helping Britain Prosper.

The Group continues to make good progress against our net zero ambitions and we have published our first Group climate transition plan, including our seven sector-specific Net Zero Banking Alliance targets, in our dedicated environmental sustainability report. We engage proactively with investors and other key stakeholders throughout the year on our sustainability priorities and plans. Given net zero and sustainability are at the heart of our purpose-driven strategy, with ambitious climate targets reflected in strategic objectives, the good progress already made in this area and the Group’s existing focus on disclosure, transparency and engagement, the Board does not believe it is necessary to propose a separate climate vote to the Company’s 2023 annual general meeting at this time. We will continue to be transparent on our sustainability strategy, targets, plans and progress.



Sustainability strategy

Responsible Business Committee governance

The Responsible Business Committee (RBC) ensures Board oversight for the Group’s overall environmental sustainability strategy, which includes our strategy objectives of:

- Capitalising on the opportunities of the transition
- Managing our climate-related risks, supply chain and operations
- Embedding sustainability in all that we do

The committee meets quarterly, and climate is a standing agenda item.

Group Executive Committee governance

Updates on the key areas of the Group’s environmental sustainability strategy are provided to the RBC by the Group Executive Committee (GEC) on a quarterly basis.

These are informed by the Group Net Zero Committee, which is a GEC-level committee that provides direction and oversight of the Group environmental sustainability strategy, including particular focus on the net zero transition, nature strategy, as well as oversight of the Group’s approach to meeting external environmental commitments and targets, including progress in relation to the requirements of the NZBA.

At GEC level, individual management responsibility for the Group’s environmental sustainability strategy is through the Chief of Staff and Chief Sustainability Officer, with relevant teams in place to drive this forward, including the Group Environmental Sustainability team.

Audit Committee governance

The purpose of the Audit Committee is to monitor and review the integrity of the Group’s financial and narrative reporting of our sustainability strategy, climate risks and opportunities, in accordance with regulatory expectations, in particular the TCFD recommendations and recommended disclosures. The Audit Committee also monitors and reviews the independence and effectiveness of internal and external audit functions, the effectiveness of internal controls and risk management framework supporting the Group’s disclosures.

Key areas of engagement in 2022 include the consistency of target setting, review of the TCFD recommendations and recommended disclosures within the Group’s annual report and accounts, the assessment of materiality from a financial statement disclosure perspective, as well as the evolving accounting practices, reporting and assurance requirements.

Climate risk

Board Risk Committee governance

Governance for climate risk is embedded into our existing governance structure and is complementary to governance of the Group’s environmental sustainability strategy. The BRC is responsible for oversight of climate-related risks across the Group. This includes alignment with regulatory expectations, embedding into the Group’s Risk Management Framework and implications for risk appetite.

Climate risk is considered each month through the Group’s risk reporting, while more detailed updates are presented half-yearly to the BRC regarding the Group’s climate risk management activities and key developments. These updates ensure Board oversight of:

- The Group’s overall climate risk profile and appropriate steps to mitigate this
- Plans to develop the capabilities supporting climate risk management, including data, climate scenario analysis and reporting, and how these are covered across the Group
- Development of climate risk appetite at Group level, supported by appropriate business appetite

Group Risk Committee governance

Responsibility for overseeing the management of risks from climate change rests with the relevant Chief Risk Officers (CROs) across the Group, who have Senior Management Function responsibility covering the Ring-Fenced Banks (Lloyds Bank and Bank of Scotland), Lloyds Bank Corporate Markets (LBCM), and the Solvency II regulated entities in Scottish Widows (under SWG, the Finance Director has additional SMF responsibilities to manage the risks while the CRO oversights).

These responsibilities are supported by regular discussions at Risk Committees across the Group’s key legal entities, including the GRC, informing updates to the BRC. Additional engagement on relevant climate-related matters is undertaken through the existing risk governance structure, for example, sector risks and opportunities related to climate are presented and discussed at senior credit forums.

Programme governance is also in place for oversight of plans to develop the Group’s climate risk management and scenario analysis capabilities.

Entity governance

Governance structures are in place to support consideration of sustainability and climate risk at Board level across the Group's key legal entities.

The Group's governance structure focuses on ensuring independent decision making by the Ring-Fenced Bank boards, as outlined in the **Group's 2022 annual report and accounts** (page 86). Responsibilities for the Ring-Fenced Banks are covered through the Group's governance structure, as outlined on page 50.

The Insurance Board's Sustainability Committee reviews the ESG Strategy for Scottish Widows and makes recommendations to the Insurance Board legal entities. It also oversees ESG delivery and embedding alongside risk monitoring and the delivery of activities to support Scottish Widows' ESG commitments. Climate risk is discussed at the Insurance Board's Risk Oversight Committee as part of its enterprise-wide risk monitoring responsibilities.

In LBCM, regular updates on climate risks are provided to its Board and Board Risk Committee.

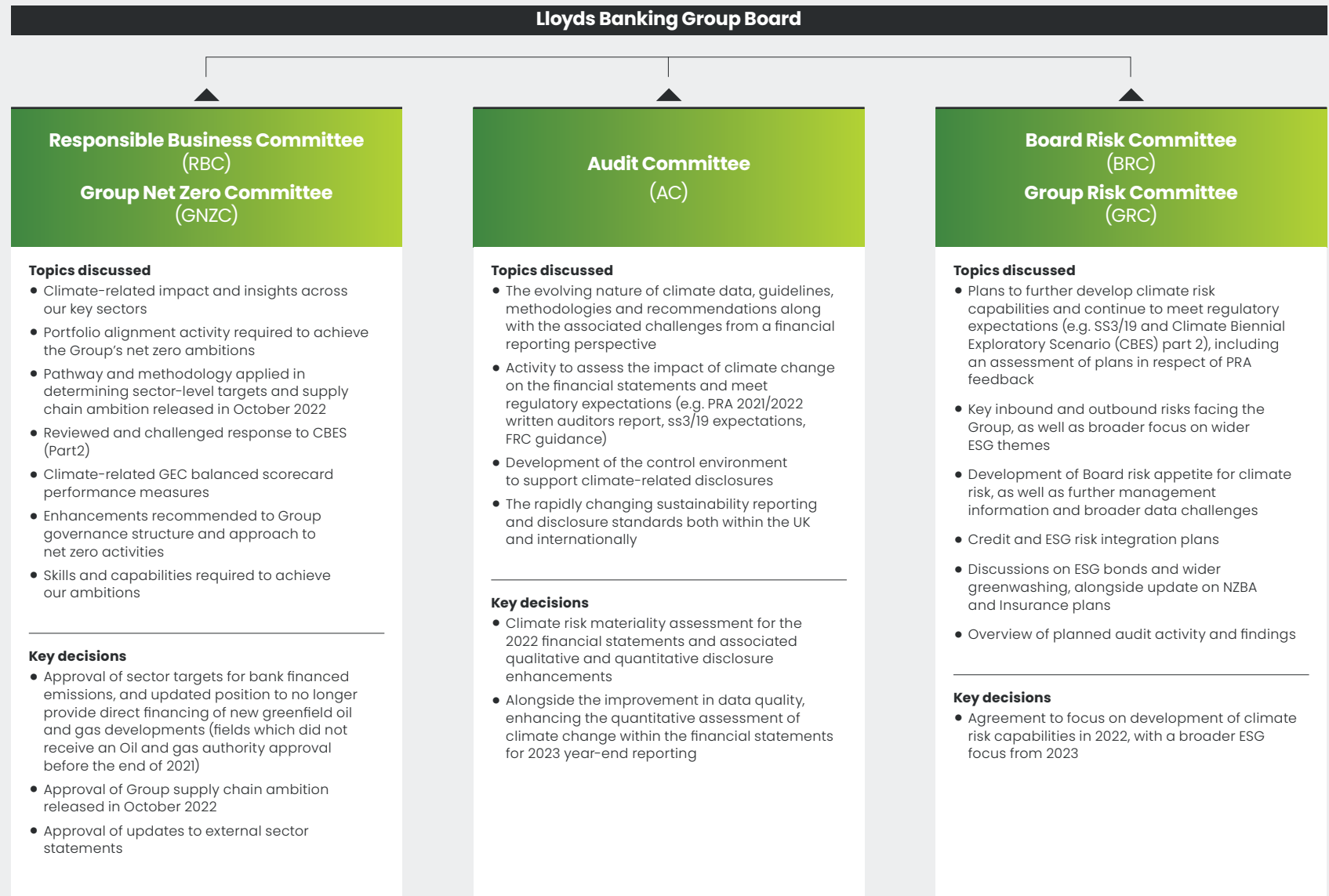
Further details on respective governance for the Group's other entities can be found in their respective disclosures.

Divisional governance

Group-level governance of climate risk is supported by existing governance structures across our divisions that are used to oversee decisions related to sustainability and climate risk that impact the divisions, ensuring sustainability and climate risk are managed as part of regular activity. These divisional governance structures include the Consumer Lending Executive Committee, Business and Commercial banking Executive Committee, Corporate and Institutional Banking Executive Committee and Insurance Pensions and Investments Responsible Business Executive Committee within Scottish Widows. Our Group Environmental Sustainability team is supported by divisional sustainability teams, ensuring a coordinated approach to oversight, delivery and reporting of the Group's environmental sustainability strategy.

Key decisions and discussions in 2022

The following diagram illustrates some examples of the key discussions and decisions taken across the Group's governance structure in relation to the Group's environmental sustainability strategy, targets and approach to managing climate risk.



Skills and training

In 2022 we provided training for our Responsible Business Committee (RBC) and the Group Executive Committee (GEC) on the theme of nature and biodiversity. We also continued specialist training of our frontline Commercial banking colleagues and general sustainability training to colleagues across the Group.

Senior leadership training

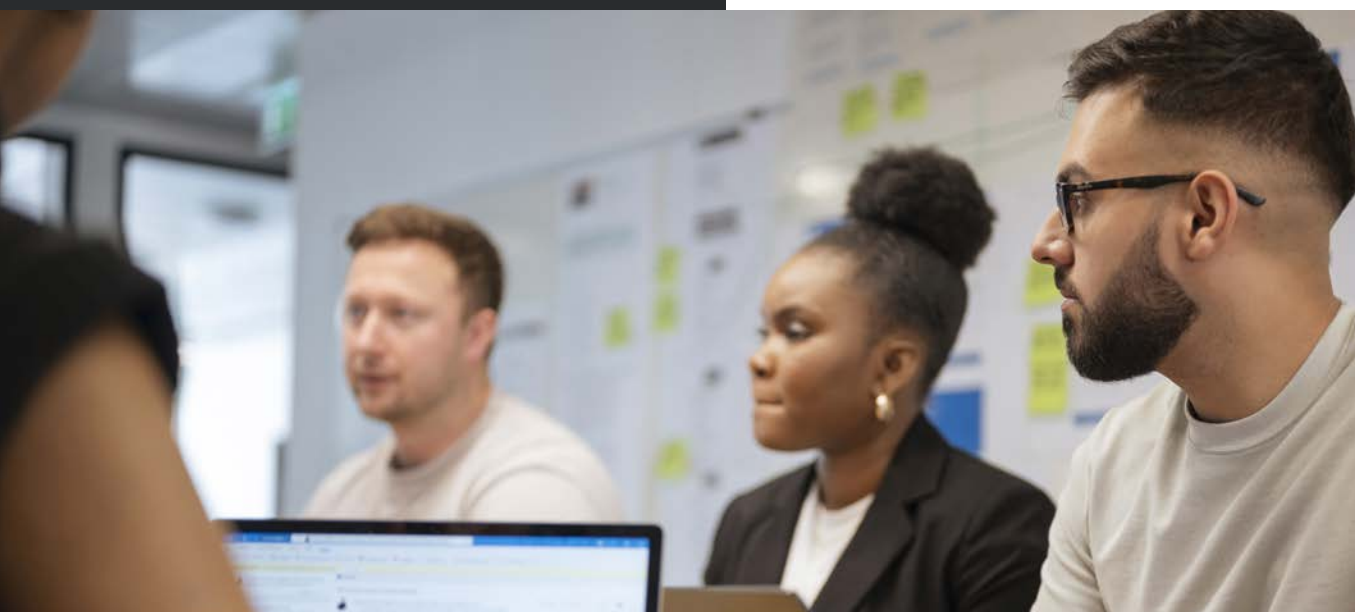
Training was provided to RBC and GEC on the themes of nature and biodiversity loss. We plan to build on this training throughout 2023 as we engage senior stakeholders on this important topic.

Other updates delivered include:

1. Net zero paper on targets to Board in June 2022.
2. Update on climate strategy to RBC in April 2022.
3. NZBA sector targets to RBC in July 2022.
4. Assurance to BRC and AC in November 2022.

Commercial banking training

We have been upskilling our frontline colleagues so that they can support their clients on their sustainability journey. By the end of 2022, over 2,600 colleagues had participated in the Sustainability Essentials Course accredited by Cambridge Institute for Sustainability Leadership (CISL), including a majority of Small and Mid Corporate client-facing colleagues. Of these colleagues, 1,270 have pursued further training via a bespoke programme developed in collaboration with CISL which specifically focuses on climate and nature-related risks and opportunities and their implications for the finance sector and Commercial banking clients. In 2021, a dedicated ESG Financing team was created to support the sustainability-related needs of large organisations. Over 2022 the team developed deep sector expertise in order to provide the in-depth detail our clients require.



In action

Sustainability training for colleagues



SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

Sustainability is core to the Group's strategy; ensuring we continue to embed this as a key factor within our day to day decision making is essential. It's important to support colleagues and leaders with how to consider both the direct and indirect impacts of their decisions on the environment, our net zero ambitions and the UK's wider transition to net zero.

In partnership with our Group Sustainable Business team, the Cambridge Institute for Sustainability Leadership and subject matter experts from across the business, we developed a Sustainability foundation level training programme in 2021. This was designed with all colleagues in mind and covered the Group's net zero ambitions and strategy, with deep dives into climate risk and specific sectors such as homes, vehicles and the role of digital technology.

The learning was rolled out across the Group towards the end of 2021 with over 60,000 colleagues having completed the mandated elements of the programme by the end of the first half of 2022. The training encouraged colleagues to commit to living and working more sustainably with over 25,000 making a commitment to undertake specific activities to support this. Of those, 88 per cent of colleagues committed to understanding their own carbon footprint using internally developed tools and 80 per cent pledged to reducing their energy consumption at home through activities such as switching off devices and switching to LED lightbulbs.

Recognising the carbon emissions generated through our supply chain, we set an ambition in 2022 to reduce the emissions from our suppliers by 50 per cent by 2030 on the path to net zero by 2050, or sooner. To support our delivery of this, a new training programme specifically for our Supply Chain and Sourcing Managers is being developed for delivery in 2023. The training will include a focus on our Emerald Standard for suppliers which was launched last year.

In 2023 we will see further training for our Board, Group Executive Committee and key stakeholders across the Group, which will include looking at our nature-related risks and opportunities, to further develop our understanding and capabilities to act upon these.

Credit Risk are working to embed ESG into their processes and approaches. We will support colleagues on this journey with sector-specific training to help ensure that colleagues are placing equal consideration to ESG risk alongside the assessment criteria for other key risk factors. We are running an upskill programme for our Credit Risk team and Commercial Relationship Managers.



Group roles and responsibilities

The Group’s structure provides clear oversight and ownership of our environmental sustainability strategy and management of climate risk across the three lines of defence, with dedicated teams in place focused on these areas.

Roles and responsibilities will differ in some areas between divisions and entities, reflecting our Group structure.

Three lines of defence		Teams
1st line	The Group Environmental Sustainability team is responsible for overseeing the Group’s approach to responding to global issues on environmental sustainability.	This includes calculating and forecasting emissions, as well as sector-level target setting and transition plans to support the Group’s environmental commitments and targets.
	At a divisional and/or sector level there are sustainability teams supporting the delivery of the net zero strategy. They are responsible for developing the Group’s strategic response to climate risk, including setting the business strategy, ambitions and development of sustainable product-level offerings to support the Group’s sustainability strategy.	Group Finance is responsible for incorporating climate into the Group’s planning and external financial reporting process.
2nd line	Risk is responsible for overseeing the risks arising from climate change. This includes oversight of our strategy and management of climate risk, ensuring alignment with regulatory expectations.	Some of the key activities across Risk include: ownership of climate-related methodologies and frameworks, including material assumptions to quantify climate risk and generate scenarios and stress testing; integration into risk management processes; and setting the Group’s climate risk appetite.
3rd line	Group Internal Audit has established a team to focus on sustainability and climate risk. This team, supported by other subject matter experts, provides independent assurance to the Audit Committee and the Board. Group Internal Audit also attends key sustainability and climate risk governance committees and forums.	

Remuneration

In 2022 we have increased the weighting of climate performance measures in the Group balanced scorecard to 10 per cent, placing an increased focus on our climate change ambitions and our purpose of Helping Britain Prosper.

Our 2022 Group balanced scorecard include the following two climate performance measures:

- Reducing our operational carbon emissions (5%)
- Sustainable financing and investment (5%)

We will continue to review ESG and climate measures in our remuneration structures and policies taking into account market practices and aligning with our Group strategy.

See page 32 of the Group’s **annual report and accounts 2022** for further details

We’re taking climate change seriously in 2022 we increased the number of climate performance measures, which now make up 10% of the total Group balanced scorecard.

Risk management

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We have made good progress with embedding climate-related risks into our risk management approach and this continues to evolve as we build our understanding and capabilities. We also acknowledge the importance of managing the risks from wider ESG impacts. We have made some steps in this area, however, we will continue to develop our framework to integrate these risks in our key processes.



How we embed climate risk

Climate risk is considered a principal risk within our Enterprise Risk Management Framework (ERMF), reflecting its importance and the focus required. This ensures a consistent approach to embedding the consideration of climate risk in our activities, while also enhancing Board-level insight.

However, the impacts from climate risk are not standalone and largely manifest through the other financial and non-financial risks that we face. Therefore, we have also taken steps to integrate the consideration of climate-related risks throughout our ERMF, ensuring comprehensive consideration across our business activities.

We define climate risk as, the risk that the Group experiences losses and/or reputational damage because of climate change, either from the impacts of climate change and the transition to net zero (inbound) or as a result of the Group’s response to tackling climate change (outbound).

Our response to managing climate risk affects many different stakeholder groups, including: our customers; colleagues; suppliers; regulators and policymakers; investors and NGOs; and wider society. Our response will have a long-term bearing on these stakeholders and the Group’s business model.

Managing climate risk


Our Group climate risk policy provides an overarching framework for managing climate risks. The policy is structured around eight principles, supported by clear requirements to help meet our climate change ambitions, the TCFD recommendations and relevant regulatory expectations. Activity in 2022 focused on embedding the policy across the Group, particularly on ensuring that climate risks are appropriately reflected in our risk profiles. This has focused on both the risks across different areas from failing to adequately support the transition to net zero, in line with our strategy, as well as climate-related impacts which will affect the Group through our other principal risks.

One Risk and Control Self-Assessment (RCSA) is the process for managing risk across the Group, enabling the understanding and identification of risk exposures and risks across the business. As part of the wider risk management landscape, inbound and outbound risks, as well as relevant controls, are now included as part of the One RCSA Framework, although this will continue to evolve. This aims to ensure that the risks are managed effectively, and any events are collaboratively resolved by the business.

We have captured the potential effects from failing to sufficiently support the transition to net zero as a standalone climate risk. Our activity across the Group to support the transition is covered throughout this report. However, in most other cases, the impacts from climate risk will flow through other principal risks.

The following sections provide further detail on the key processes to address some of most material climate risks facing the Group, particularly focusing on credit risk (with a wider focus on ESG risks).

The Group and the wider industry are still developing both the understanding and capabilities for managing climate risk, therefore, our approach will continue to evolve in the coming years. In addition to the risks we are already facing, new risks will continue to emerge as a consequence of the transition to net zero.

Further information on the emerging risks we face, including those relating to climate change, can be found on page 145 of our **annual report and accounts 2022** 

Credit risk

Climate risk is a core focus, considered collectively as part of ESG, within our credit process to ensure appropriate management of ESG risks and opportunities.

Introduction to credit risk

We continue to strengthen our capabilities and abilities for identifying, assessing and managing climate-related risks, embedding a double materiality approach that enables us to assess the inbound risks on our balance sheet, and the outbound risks of our balance sheet on society and the planet (see page 16 for further details).

We recognise that climate change is likely to result in new challenges, and changes to the credit risk profile and outlook for our customers, the sectors we operate in and collateral/asset valuations. This section outlines how we are integrating consideration of climate risk and wider ESG

matters into our credit processes, while the quantification of potential impacts is considered in the Scenario analysis section (pages 63 to 67).

Our risk appetite for managing climate risk is outlined in our external sector statements, and forms one of the ways we manage and control climate risk. We have 14 external sector statements that apply to the Group's activities which reflect the approach we take to the risk assessment of our customers. These sector statements outline what types of activities we will and will not support.

Our external sector statements are publicly available on the [Responsible Business downloads centre](#)

ESG credit integration

Through 2022 we have made significant progress in embedding ESG risk management into our credit processes. We have identified three key areas which have been prioritised for climate/environmental risk integration strategy:

- 1. ESG credit risk framework and policies**
- 2. Portfolio management**
- 3. Case management**

This will strengthen our climate and environmental risk management at a portfolio-level, and for individually managed exposures.

We remain focused on uplifting colleague knowledge on ESG risks and opportunities to ensure it is fully embedded across the organisation. This includes creating a consistent taxonomy and continuing to expand our ESG credit risk team through recruiting specialists, reflecting the importance we place on this topic.

ESG credit integration strategy

ESG credit risk framework and policies



Focus areas

- Development and embedding of ESG credit risk policy and framework, including capability uplift
- Development of approach for financing transition technologies
- Introduction of inbound/outbound assessment in portfolio mandates

Portfolio management



Focus areas

- Embed ESG strategy and MI into risk management reporting and credit governance forums
- Refining our internal tools and capabilities for assessing and managing ESG risks

Case management



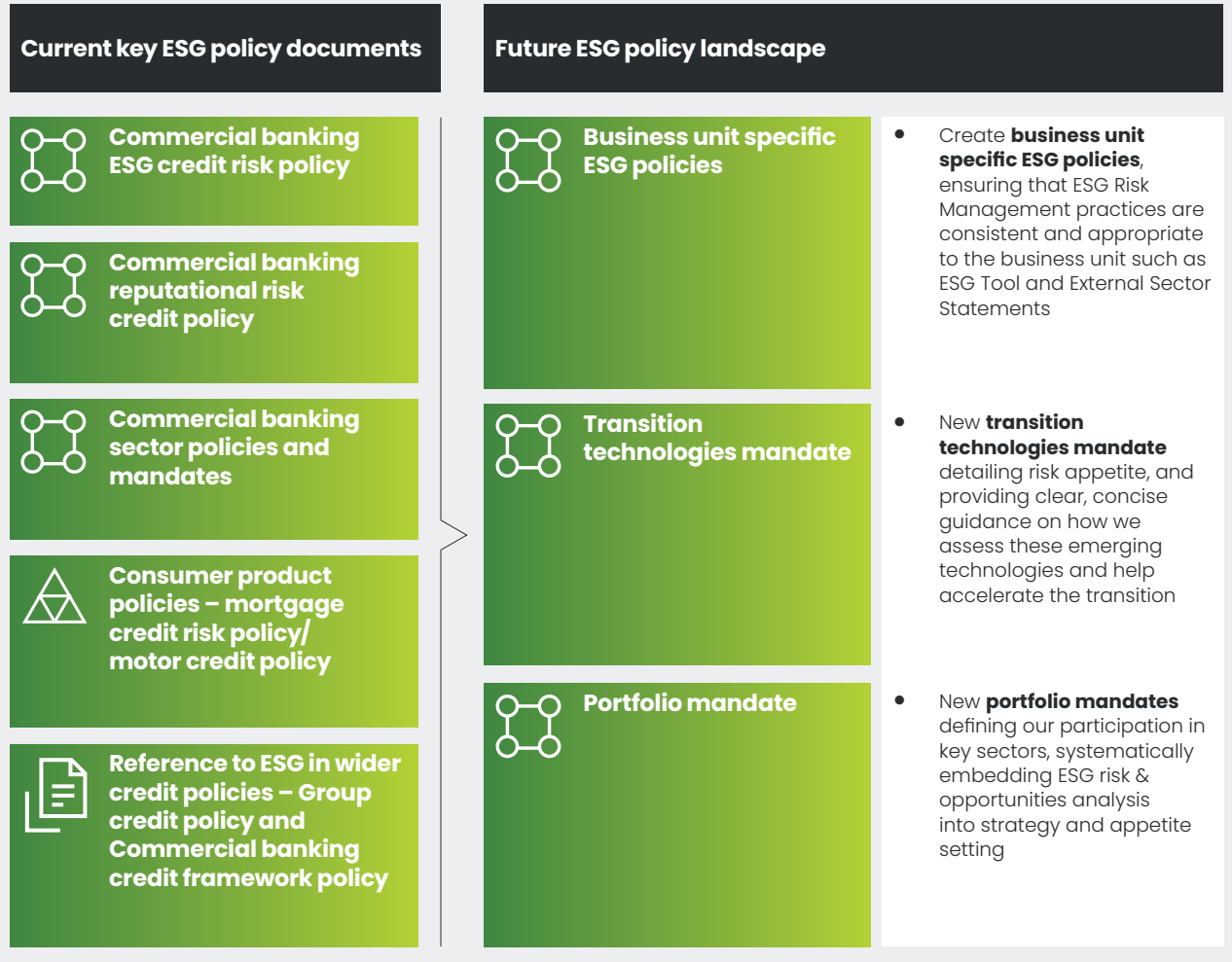
Focus areas

- Counterparty-level ESG risk assessment
- Inbound risk case management process
- Outbound risk case management process

ESG credit risk framework and policies ▾

We continue to embed both ESG and climate risk considerations into our credit risk framework, policies and processes. As we embed climate risk into our credit risk management framework, we are continuing to assess how climate risk is reflected in our Group credit risk policies and sector appetites over the short, medium and long term. Regular updates are submitted to the Group Risk Committee and Board Risk Committee to ensure visibility of the risk profile and work undertaken to align to future strategy and regulatory requirements.

Our ESG policy landscape will continue to evolve and be reflective of how the approach will differ for each of the divisions as outlined in the diagram below.



Portfolio management

Our portfolio-level ESG management approach has focussed on progressing the following key areas of activity:

- Refining our internal tools and capabilities for assessing and managing ESG risks
- Enriching our risk assessment and internal monitoring with external data sources
- Embedding additional ESG risk management practices across our policy landscape
- Ensuring business and sector specific ESG risks are regularly reviewed by senior stakeholders in our credit risk governance forum

For all sectors, we expect our lending criteria to develop as part of a data driven strategy, leveraging the outcomes of scenario analysis, and expected credit losses. Examples include the inclusion of climate risk within affordability decisioning, and enhancements to our risk criteria.

Retail motor – Our EV strategy remains fully aligned with our risk motor policy to ensure the pace and quality of growth is understood and regularly reviewed, keeping inbound risks within appetite, while offering support to the transition from Internal Combustion Engines to Electric Vehicles.

Retail mortgages – The inbound impact of climate risk is observed primarily through the devaluation of properties due to either physical or transition risk. The integration of climate risk into credit decisioning allows us to determine the adequacy of mitigation/required abatement; with EPC controls in place for buy-to-let properties and exposure to physical risks (such as flooding) managed within our mortgage origination criteria/property valuation process (also considered within Commercial Real Estate policies).

Commercial banking – We have introduced double materiality reviews of key sectors as part of our commercial credit risk governance. This includes an in-depth review of the key challenges and opportunities for the sector, and the sector's impact on the wider world, with a particular focus on credit quality and alignment to our net zero ambitions. This has provided the business, credit and senior stakeholders clearer visibility of the key risks and opportunities, and we will continue this level of oversight in all 2023 reviews.

We continue to advance our internal reporting capabilities and tools for managing ESG risks through introducing external data sources. This includes analysing client emissions data trends and presenting findings to relationship managers and credit officers, to allow them to assess and challenge the quality of the client's transition strategy and factor this into the credit decision.

We have reviewed our end-to-end credit risk lifecycle and have prioritised areas for climate risk assessment and management processes. For example, we have introduced an ESG risk flag into our enhanced monitoring process for lending exposures showing early signs of potential financial deterioration. This enables us to monitor cases where ESG risk issues have contributed to increased credit risks. We will continue to review and monitor these trends, for future consideration of how climate risk factors could influence the risk ratings of our clients.

Case management

Counterparty-level ESG risk assessment – We continue to enhance our internal risk assessment methodologies and tools in Commercial banking to identify counterparty-level ESG risk. To assess risks relevant to our clients we use a bespoke, qualitative ESG risk assessment tool which focuses on both the inbound and outbound risks, completed at least annually as part of our regular client engagements.

The assessments involve a client-specific questionnaire which assesses exposure and management of climate and ESG risk issues. These outputs are overlaid with a transition risk assessment of the sector which has been analytically-derived using emissions data, and reputational risk data, to produce scores reflective of the client's climate impacts and exposure to ESG risks. This allows us to compare performance between sectors and between clients. We have embedded the outputs of this tool into our credit risk management framework. We also ensure that ESG-related risks are considered for all Commercial banking customers that bank with us, with specific commentary in new and renewal credit applications where total aggregated hard limits exceed £500,000 (excluding automated decisioning processes for smaller counterparties).

Case management process

Our ESG risk referrals and case management process complements the existing credit assessment and where areas of concern are identified, we will engage with the client or take mitigating actions to ensure the lending remains within risk appetite and in line with our external commitments. This referrals process methodology continues to evolve and has focussed on the most material exposures within our Commercial banking portfolio; through 2023 we intend to expand the coverage and methodology.

Inbound case management process

We have established a specialist team to assess any foreseeable financial risk for clients, transactions and projects arising from elevated ESG risk factors. We assess the ESG risks through their potential to impact the financial viability of the client whether through reducing cashflows or through impacts to the balance sheet, and their ability to service any debt or other products held with the Bank.

These assessments will consider a range of potential ESG risk issues which could impact on the client's financial viability, including:

- Physical risk exposure of the client, and adequacy of mitigation measures
- Client's transition strategy including ambition and performance against emissions target, and the potential for adverse media
- Sensitivity of client profitability to carbon prices through conducting downside stress analysis for clients operating in high-carbon sectors

Outbound case management process

Outbound risks, as defined on page 16, are carefully considered at a counterparty and transactional level and follow two formal processes which are to consider Reputational and Environmental Risks.

- Reputational risk policy defines a formal process for identifying and monitoring outbound and reputational risks in Commercial banking. This includes any potential climate and environmental risks such as trade in goods with heightened environmental risks, adverse media, environmental or social incidents and can also assess historic environmental incidents appertaining to the clients we fund
- Environmental risk is embedded within credit policy and must be assessed at origination and monitored on an ongoing basis throughout the customer lifecycle and at specific trigger points. The risk-based environmental policy ensures focus on higher risk sectors and transactions. All cases that are identified as higher risk are subject to further review and where specific or material environmental risks or concerns are identified by the Group's in-house team, cases are referred to environmental risk consultants for an opinion on the adequacy of the mitigants in place or recommendations on managing the environmental risk. The key findings from such due diligence must be factored into credit applications, which inform lending decisions

We continue to be a signatory to the Equator Principles, which is a risk management framework for managing environmental and social risks in project finance transactions, such as large-scale energy, industrial, or infrastructure projects. It aims to ensure that such deals, where the Group provides finance or advice, meet minimum standards for due diligence and monitoring in keeping with responsible finance principles.



We assess the ESG risks through the lens of the potential impact this could have to the client and their ability to service any debt or other products held with the Bank

Other risks

As we embed climate risk into our ERMF, we are integrating climate risk within the frameworks for managing other principal risks. Our general approach is to incorporate consideration of climate risk within our existing risk management mechanisms and processes.

Further information on our wider approach to risk management across the different risks we face can be found in the **annual report and accounts 2022** on pages 139 to 195



Insurance underwriting risk

Given the short-term nature of home insurance policies we are able to review our view of risks regularly, and change our approach as risks develop to mitigate long-term exposure of climate risks. Our overall strategy is to continually review our acceptance criteria and pricing strategy for each risk based on both a short-term and long-term view. In-house expertise on physical risk is retained in the form of a dedicated weather modelling team. The team is comprised of specialists in hydrology, meteorology and probabilistic modelling who develop a baseline view of physical risk for the UK and conduct forward-looking climate stress testing on this.

This team has been in place since 2016 and has monitored and applied climate change science onto the view of risk used for capital, pricing, reinsurance, and planning.

Financial management

An assessment of climate-related risks for General Insurance liabilities is integrated into our internal model governance process. Climate change is identified as a key topic for model review and approval within this process, and specifically, the appropriateness of the view of risk for the weather perils in the context of climate change science.

This view of risk is integrated into assessments of capital requirements, reserving, reinsurance and pricing. It also feeds into the quarterly exposure management where insurance portfolio exposure arising from weather-related perils is monitored and controlled.

A third-party vendor model is used for the perils of flood, coastal/storm surge and wind. The vendor model results are adjusted internally to better reflect our own exposure and experience.

Catastrophe modelling

The Catastrophe Weather Model is a key component of the Scottish Widows Solvency II Capital Model. The results of the model by weather peril are used to inform the base rates for risk pricing. Accordingly, Weather Pricing Models are used to inform how insurance premiums should vary across the book. The outputs are used to create a relative view of risk across the geographic domain of the book – i.e. how risk varies from location to location. The weather modelling team conducts an ongoing review of available research and models on climate change.

Key metrics

Properties in high-risk areas

Many of our customers have been impacted by weather events in the last few years, specifically from events which have led to claims from inland flooding, coastal flooding and storm damage. Climate scientists predict that the frequency and severity of flooding could increase in coming years.

For example, sea level in the UK could rise by up to one metre by the end of the century. This size of increase would likely affect the frequency and severity of our claims experience. Being able to identify and monitor trends in the increased physical risks, through a variety of metrics, is therefore very important.

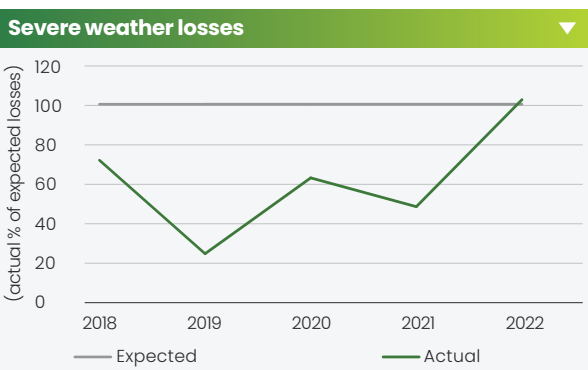
Weather Pricing Models are used to inform how insurance premiums should vary across the book. The outputs are used to create a relative view of risk across the geographic domain of the home insurance book. We assign properties risk bands from 1 to 30 to reflect the level of flood risk, with 1 being low and 30 being high. We can use this banding to manage our exposure in high-risk areas. Increasing the proportion of our portfolio in bands greater than 20 could lead to significant increases in losses in the event of increasing severe events.

% insured properties which are high risk > Band 20 as at:

	Dec 22	Dec 21	Dec 20
Inland flood	2.7%	2.7%	4.0%
Coastal flood	0.6%	0.6%	0.6%

In addition, we monitor actual weather-related losses against expected weather losses. The graph below shows Actual versus Expected Average Annual Loss (AAL) on a net of reinsurance basis and covers flood, wind, sea surge and freeze. Actual weather losses performed better than expected from 2018 to 2021 due to recent benign activity. However, due to the extreme cold weather in December 2022 in addition to small windstorm losses, actual weather losses for 2022 exceeded approximate expected losses.

The expected weather losses is a long-term view, so there can be significant volatility depending on weather events.



Conduct risk

Key climate-related conduct risk considerations are that we have clear processes and controls in place so that we avoid any potential ‘greenwashing’ through ensuring that sustainability-related claims, naming and marketing are clear, fair and not misleading, and consistent with the sustainability profile of products, and ensuring fair customer treatment as part of our role in supporting the transition to net zero.

Our external disclosures are subject to a robust governance process, including appropriate Legal review. Amongst other objectives, this looks to ensure that our disclosures outline a clear and accurate message of what we are doing to support the transition to net zero. We also assess the appropriate regulatory requirements to ensure our disclosures align with external expectations. We expect our controls and processes will continue to evolve, reflecting our increasing understanding of climate risk as well as the changing regulatory landscape.

A review of our conduct risk framework was undertaken in 2021 to ensure that we are able to identify and mitigate the risk that customers, including those who are vulnerable, experience poor outcomes as a result of our response to the transition required to achieve a low-carbon economy. This has led to updates to our policy and guidance in the past 12 months in relation to climate risk. This has included education for Product Owners from climate risk SMEs to help them understand the expectations and group appetite which should be considered as part of the product lifecycle.

We are currently undertaking a detailed assessment of our Group policies and frameworks that are being impacted by the new FCA Consumer Duty rules which come into effect in 2023. This includes reviewing the content of the policies and frameworks to ensure that the business can evidence how the products they manufacture, distribute and service adhere to both regulatory standards and Group requirements, and deliver good outcomes for our customers. The final policy will be published in 2023.

Operational resilience

As part of the Group’s approach to manage its operational resilience, we have embedded climate risk within the strategy as one of the key drivers, considering the impact on and from climate as part of ensuring its operations remain resilient. These climate-related impacts could affect the Group’s operational resilience through the Group’s properties, IT systems, people and third-party suppliers. Our approach primarily focuses on how physical risks could impact the Group, therefore, potential transition risks may also require further consideration as our approach evolves.

We have processes in place to consider the resilience of our property in relation to physical risks, particularly focused on our offices, data centres and branch network, to minimise the risk of service disruption. Our insurers periodically highlight the Group’s buildings subject to high flood risk. These sites are then surveyed in detail to quantify that risk and determine appropriate flood defence mitigation. We proactively monitor the temperature and humidity in our data centres, with root cause analysis undertaken for any incidents to identify any local climate issues and remediate. Additionally, we have created resilient tech rooms where power, temperature and humidity are robustly controlled.

We expect our third-party suppliers to review their business continuity plans and recovery strategies, ensuring these are appropriately updated to mitigate potential risks posed by climate change, to ensure continued provision of service. Our Group’s Code of Supplier Responsibility also outlines our expectations for the third parties we work with in relation to environmental sustainability. This includes expectations for the Group’s suppliers to proactively identify, manage and reduce their environmental impact, as well as adopting the principles of the Emerald Standard which we launched in 2022, as outlined on page 48.

How climate risk is incorporated into the management of other principal risks	
Risk	Approach
Capital	As part of the Group’s Internal Capital Adequacy Assessment Process (ICAAP), we assess how climate change impacts the capital risks faced by the bank. This assessment has progressed over recent years and will continue to develop. We participated at the Bank of England’s Climate and Capital Conference in October 2022 and we will continue to monitor developments in this area.
Market	Our market risk management approach includes comprehensive stress testing frameworks, which cover all material risk factors (key ones being interest rate, foreign exchange, credit spread, inflation and equity risk). Initial assessments have concluded that our market risk stress testing frameworks are sufficiently comprehensive and severe to capture climate-related scenario stress events appropriate to the duration of the most material exposures, although further consideration is anticipated, in line with developing industry and Group best practice on scenario analysis.
Funding & Liquidity	We consider the impact of climate risk as part of the Group’s Internal Liquidity Adequacy Assessment Process (ILAAP). Our current view is that our internal liquidity stress scenarios are severe enough to cover any potential impacts from climate risk over the relative timeframes involved. Liquidity crises tend to be driven by short and sharp shocks, however, the physical and transition risks of climate change are typically considered to impact over a longer-term, which we expect would provide sufficient time to obtain alternative sources of funding. In our ongoing assessments, we consider that any changes that are expected to the balance sheet as a result of climate change would be assessed through the established Funding Plan process.
Model	The models currently used to assess climate risk remain in their relative infancy while understanding develops across the industry. We are working with third parties to develop the Group’s modelling capabilities, with further activity in 2023 to compare the outputs from model methodologies across the Group to inform our approach going forward. The current position is mitigated through higher reliance on management judgement and our approach follows the appropriate model governance processes, which will continue as modelling ability improves in future.
Data	Given the limitations in the data available for measuring climate risk, data risk also remains a significant area of focus. We are continuing to focus on getting the right data in place, while following the Group’s existing standards and frameworks to ensure that suitable data controls are in place.
Regulatory compliance	Consideration of climate-related regulations and legislation is captured as part of our existing horizon scanning processes to identify any requirements for the Group or our customers. This informs our view of the applicable regulations and legislation, to ensure activity is in place to achieve compliance with appropriate requirements impacting the Group, for example, the Prudential Regulation Authority’s expectations for embedding the financial risks from climate change through SS3/19.

Scenario analysis

In this section

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We continue to evolve our climate scenario analysis capabilities to assist in the identification, measurement and ongoing assessment of the climate risks that pose threats to our strategic objectives. It is a fast-evolving discipline, requiring new skillsets and investment in data and infrastructure.



Climate scenario analysis is a forward-looking projection of plausible yet severe climate outcomes. It is typically conducted in a number of steps, with the aim of challenging the existing business model and better understanding vulnerabilities in our balance sheet. In broad terms, the approach consists of the following steps:

- Identify physical and transition risk scenarios that we want to explore, relevant to our balance sheet and risks.
- Link the impacts of scenarios to financial risks.
- Assess asset, counterparty and/or sector sensitivities to those risks.
- Extrapolate the impacts of those sensitivities to calculate an aggregate measure of exposure and potential losses.

Scenario analysis can be conducted at different levels of granularity to identify impacts on individual exposures or on portfolios. By examining the effects of a wide range of plausible scenarios, scenario analysis can also assist in quantifying tail risks and can clarify the uncertainties inherent in measuring climate-related risks. For this purpose, scenario analysis tends to be longer-term in scope, albeit not exclusively, and used to evaluate potential implications of climate risk drivers on financial exposures.

Current activity

We have established a centre of excellence to bring together the expertise and resources to further develop our scenario analysis capabilities, building on the experience from the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise in 2021 and other internal assessments. This is enabling us to accelerate progress to meet the requirements of internal risk managers, support the evolving needs of our customers, while meeting the expectations of external stakeholders.

Climate scenario analysis activity has prioritised areas most exposed to climate risk, as outlined on the following pages. While this analysis is inherently uncertain, these assessments have provided further insights that support existing understanding that physical risks likely manifest over the long term and that short-term transition risks are muted. Nevertheless, regular reassessments will be required to deepen understanding and benefit from improved data sources, methodologies, and updated scenarios. The insights from this scenario analysis activity have been used to support the Group's measurement of Expected Credit Loss (ECL) and ICAAP.

We continue to contribute to collaborative efforts to improve the risk management and measurement of climate risks

through scenario analysis. We took an active role in the Bank of England's 2022 Annual Stress Test Forum, to share better understanding of risk modelling approaches, and co-led the Climate Financial Risk Forum's (CFRF) Scenario Analysis Working Group, focused on development of an update guide for banks on current practices.

Future plans – an evolving landscape

As industry understanding builds, we will continue to develop our climate scenario analysis and modelling capabilities. We are exploring a variety of approaches and methodologies and are currently adopting a hybrid approach, using both third-party solutions and developing our own in-house modelling capabilities. We will compare both approaches to understand better how their relative strengths can complement each other. This will inform our strategic approach to climate scenario analysis modelling.

In addition to our current analysis, further investments in data and modelling are already underway to further explore other climate risks, including physical risks for commercial and transition risk for mortgages. To improve modelled outcomes, climate-related data will continue to be enhanced through deeper engagement with our customers and wider sourcing of relevant public and private data sets.

Climate scenario analysis undertaken

This section outlines the analysis undertaken across our banking activities, predominantly focused on potential transition risk impacts to our commercial clients and the potential exposure to physical risk for our UK mortgage customers. We have explored a range scenarios drawn from well-known third-party providers, such as the NGFS and the Intergovernmental Panel on Climate Change (IPCC).

The climate scenario analysis conducted in our insurance business will be disclosed in the Scottish Widows Group TCFD report (due June 2023).

- 1 This analysis represents our own selection of applicable scenarios and our own portfolio data. The Group is solely responsible for, and this analysis represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.
- 2 The NGFS climate scenarios explore a range of plausible outcomes, designed by an expert group of climate scientists and economists. They provide a common and up-to-date reference point for understanding how climate change (physical risk) and climate policy and technology trends (transition risk) could evolve in different futures.
- 3 Gross value added is the measure of the total value of goods and services produced in a sector.
- 4 The baseline uses the NGFS current policies scenario and current climate (today's temperature and physical risks). Baseline company financials are scaled based on a company-specific growth rate.
- 5 Automotive sector includes automotive original equipment manufacturers (OEM) through to dealerships.



Commercial banking

In addition to our analysis on page 14, we have produced further analysis drawing on selected data provided by Planetrics, a McKinsey & Company solution¹. The tools available via McKinsey's PlanetView platform and database provides counterparty level insights for larger, public corporates for each of the six NGFS scenarios². These can then be appropriately aggregated to generate sector-level views such as those discussed below and others such as Gross Value Added³ (GVA) pathways.

The estimated physical risk impacts are limited compared with the baseline⁴ in all scenarios modelled to 2050, as the greatest impacts from physical risks are not expected to manifest until the second half of this century. Therefore, the analysis here is limited to comparisons across transition risk scenarios.

The charts on page 66 shows the estimated median NPV impacts in the NGFS Net Zero 2050 and Delayed Transition scenarios versus a baseline for selected high-carbon sectors over time. The NPV impacts in 2050 are similar for the Net Zero 2050 and Delayed Transition scenarios, but this

does not allow for transition impacts being experienced for a greater duration in the former. Comparing estimates as at 2040 in the Net Zero 2050 scenario to those expected in 2050 for the Delayed Transition shows a starker impact for the latter, which is to be expected given the steeper increases in carbon taxes and the general narratives of the two scenarios.

As noted on page 14, there is high variance in the results of power companies that comes from high-carbon utilities passing carbon costs through to consumers and thus increasing the market price for electricity. This benefits low-carbon utilities as they are less emissions intensive, therefore face less cost increase from carbon pricing as the market price increases. There is also general demand creation in the power sector as climate policies accelerate greater electrification. The more severe policies in the Delayed Transition scenario have a greater demand for this than the Net Zero 2050 scenario, resulting in power being an outlier compared to other sectors.

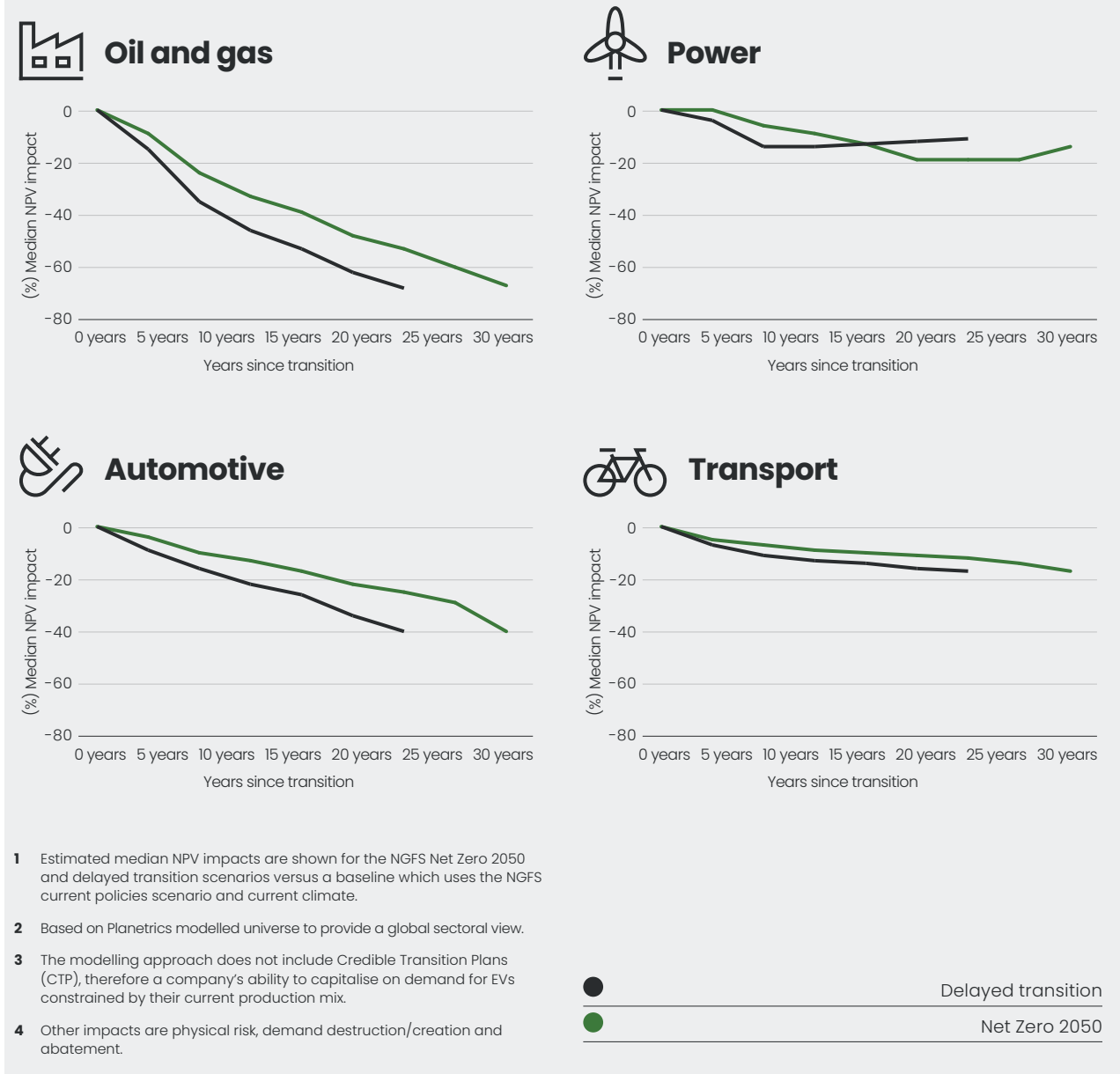
Transition risk can be further deconstructed into:

- **Demand destruction and creation:** Changes in companies' revenue due to shifting demand for fossil fuels and low-carbon products. Reduced demand for fossil fuels pushes down prices for producers and results in lower profit margins and stranded assets. On the other hand, increasing demand for low-carbon products and materials (such as lithium) pushes up profits for companies involved.
- **Direct carbon costs:** Increases in companies' operational costs from rising carbon prices for their Scope 1 and 2 emissions
- **Abatement:** Decreases in companies' costs though the adoption of technologies reducing or eliminating emissions. Investment in abatement technologies creates net savings as companies seek to mitigate rising carbon prices in the stringent climate policy scenarios
- **Market effects:** Changes in companies' profits due to their ability to pass through costs to consumers and take market share from more emissions-intensive competitors

These drivers are explored further for Oil and Gas and Automotive in the table on the following page. There is reduced demand for fossil fuels, especially due to electrification in the transport and power sectors, with renewables meeting the increasing energy demand. The demand reduction begins relatively early and creates a negative drag on NPV for the Oil and gas sector early in both scenarios. This is then attenuated by the material impact from increasing carbon taxes, due to the high Scope 1 and 2 emissions in this sector.

Automotives⁵ are also predicted to be negatively impacted in 2050 by a significant reduction in demand, as consumers opt for alternative methods of transport to ICE vehicles. However, this is somewhat later than the Oil and gas demand impacts. Carbon costs have a more limited impact as Scope 3 emissions are not directly taxed. As company transition plans are not included in these results, the impact from potential investments in increased EV production and the resulting demand creation is not reflected.

Estimated median NPV impacts¹ under NGFS Net Zero 2050 and delayed transition scenarios for selected high carbon sectors^{2, 3}



Breakdown of estimated NPV impacts¹ under a NGFS Net Zero 2050 scenario for selected sectors^{2, 3}

	Oil and gas 2030 impact	Oil and gas 2050 impact	Auto 2030 impact	Auto 2050 impact
Physical Impact	-1.4%	-4.0%	-0.9%	-2.5%
Demand Change	-16%	-59%	-4%	-37%
Carbon Costs	-43%	-29%	-17%	-19%
(Carbon Costs Independent of Other Impacts ⁴)	(-51%)	(-77%)	(-17%)	(-31%)
Market Effects	44%	24%	15%	18%
Transition Impact	-14%	-63%	-5%	-38%
Total Impact	-16%	-67%	-6%	-41%

Next steps

We plan to refresh these counterparty- and sector-level results on a quarterly basis. This will feed an internal dashboard to provide a view of a client's relative sensitivities to physical and transition risk for colleagues to use when making credit decisions.

In parallel to this, we are piloting in-house models developed with consultancy support in two key sectors: Oil and gas and Agriculture. The latter was selected given the known data challenges for this sector which limits the applicability of generic models and thus requires a bespoke approach.

When these pilot models are complete, we will review and compare the results to Planetrics and other modelling outputs and take learnings into other sector specific methodologies.

These in-house models will also start to feed the internal dashboard for credit officers, so that the potential future impacts from climate change across a range of financial metrics/credit worthiness of the borrowers can be considered in the credit assessment, and mitigating actions taken if required.

Climate scenario analysis undertaken continued

Retail

We continue to invest in understanding both physical and transition risks and our UK mortgage portfolio's exposure to them. We have expanded the range of physical hazards being considered, and are developing our own in-house transition risk modelling approach.

Physical risk

For our UK mortgage portfolio, we continue to invest in expanding our range of external physical scores and understanding across a greater number of perils, namely flooding (tidal, riverine and surface water), coastal erosion and subsidence to date. These are provided for both present day and various Representative Concentration Pathways (RCPs) and future epochs combinations in this century. Both the flood and coastal erosion scores are also provided with and without known future flood defences or shoreline management plans incorporated in the modelling.

The summary insights to date are:

- Flooding is the most material of the three physical risks reviewed, given the limitations involved in the subsidence score
- Tipping points can occur when flood defences in certain regions become no longer adequate, and the timing of such events varies by several decades for different climate scenarios
- Our exposure to coastal erosion is low, though the effects of shoreline management plans are important
- The methodology limitations and low granularity of the subsidence score constrains the possible insights at this stage

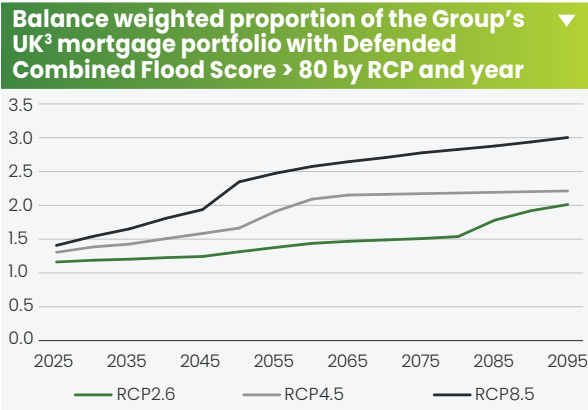
1 This analysis fixes our mortgage book as of September 2022 as a static portfolio.

2 Increased risk of flooding is based on Ambiental Climate Combined Flood Risk Score of > 80, where the risk is ranked from 0 to 100 including the impact of any flood defences, with 0 being the lowest and 100 being the highest risk. The score is influenced by both the estimated frequency and severity of flood events, and any property with a score of 1 or higher is at risk from the various types of flooding but with increasing likelihood of suffering damages.

3 Currently England, Scotland and Wales mainland only. Coverage expected to widen to include Northern Ireland properties during 2023, with discussions underway on Channel Islands and Isle of Mann.

Flood risk impact on mortgage portfolio

Building on the analysis centred on RCP4.5 in our previous Climate report, we have continued to work in conjunction with Ambiental (a company of Royal Haskoning DHV) and Rightmove to explore potential outcomes from other RCPs. The chart below tracks the proportion of our UK mortgage book¹ which receives a Flood Risk rating² of 81-100 at 5-year intervals under three different climate scenarios.



This illustrates the potential for physical risks to increase depending on future emissions pathways. There are step changes estimated at different time points in each scenario: c.2080 in the scenario with least emissions; c.2050 in the central scenario; and c.2040 in the scenario with most emissions and greatest physical risks. These step changes stem from the anticipated degree of flooding starting to exceed the flood defences that have been built or at least announced to date, therefore the impact and damages caused by severe events increases. Due to the inherent uncertainties in climate modelling, the dates are not exact. However, the charts indicate two main points: physical risks are anticipated to increase in all scenarios as there is a certain amount of lag in the effects to be expected from emissions to date; and we have an opportunity to reduce future physical risks through emissions mitigation.

Analysis of these projections by regions have identified certain areas in the UK where understanding the plans for flood defence improvements would be a key input for future modelling activity and potentially our decision making.

Erosion risk impact on mortgage portfolio

Coastal erosion has been assessed using a combination of sources of predictive coastal erosion data including the Environment Agency's National Coastal Erosion Risk Mapping and the Scottish Environment Protection Agency's National Coastal Change Assessment. These sources have been used to create property-level coastal erosion scoring. Assuming continued shoreline management plans, coastal erosion is a relatively small risk to the Group at this point in time, with only a handful of 'high-risk' properties in our portfolio. Widening the scope to any risk (score > 0) at the endpoint of the most extreme climate scenario, RCP8.5, only identifies 0.018 per cent of our mortgage properties (by volume). However, this proportion increases by an order of magnitude to 0.202 per cent when assuming shoreline management plans are not implemented. We note that these metrics are less than ideal, as they assess the proportion of our entire portfolio, therefore will be heavily influenced by the majority of properties being inland. We are currently liaising with Ambiental on how to improve these initial metrics.

Subsidence risk impact on mortgage portfolio

Present day subsidence risk is low, however as the climate continues to change, more geological formations containing shrink-swell susceptible clay minerals will experience larger fluctuations in water content. This will lead to an increasing proportion of UK properties with rising susceptibility to subsidence. High-level data provided for RCP8.5 show that the greatest increase in risk will be in London, the South East and East of England. However, there are other physical processes that can lead to subsidence which have not been modelled. The low spatial granularity of these results mean they cannot be applied at a property level, therefore insights are limited at this stage. We are in the process of upgrading the subsidence score to have climate projections for multiple RCPs and substantially greater granularity for present day risk.

Transition risk

Additionally, we are continuing to invest in the data and modelling capabilities required for quantifying the transition risks in our mortgages portfolio beyond the EPC distributions discussed elsewhere. The focus is to generate customer-level insights, and we are therefore developing our own property-level transition risk model with consultancy support. Considerations include both the ever-changing profile of available technologies and their reducing costs, as well as financial stresses for our mortgage customers due to increased heating and lighting costs. Understanding the range of potential future additional impacts on household finances under various transition scenarios will be key to informing how we support our customers. Once we develop the initial capability for residential and buy-to-let mortgages, we will then seek to modify the model appropriately for our Commercial Real Estate portfolio as well developing an approach for integrating the transition and physical risk impacts.

Next steps

Our next steps include:

- Developing an approach for combining individual physical risk hazard scores into an overall physical risk rating
- Translating physical risk ratings into customer affordability and property valuation impacts
- Combining physical and transition risk modelling to generate an integrated view of potential impacts across a variety of climate scenarios
- These developments will inform lending criteria enhancements planned for retail mortgages affordability decisioning, as described in the credit risk section (page 59)

Volume and balance weighted proportion of the Group's mortgage portfolio with erosion risk rating > 0 by 2095 in RCP8.5, with and without shoreline management plan effects

	Shoreline management plan			No active intervention		
	2025	2055	2095	2025	2055	2095
Volume weighted	0.001%	0.003%	0.018%	0.002%	0.033%	0.202%
Balance weighted	0.001%	0.003%	0.017%	0.002%	0.037%	0.207%

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Additional information

Measurement basis for metrics and targets

We have estimated our financed emissions producing two separate baselines to align to the individual ambitions to reduce our financed emissions as outlined in the Strategy section. The first baseline is for our banking operations, which covers Lloyds Banking Group, excluding Scottish Widows (the Bank).

The second is for our Scottish Widows activity which is reported separately.

In measuring financed emissions, the Group has continued to apply the emerging industry-led standard developed by Partnership for Carbon Accounting Financials standard (PCAF) in measuring and disclosing our greenhouse gas (GHG) emissions financed by loans and investments. PCAF is now recognised as the most widely adopted global standard for measuring and accounting for Scope 3 emissions by the financial sector, referred to here and across industry as ‘financed emissions’. Where possible, we have adopted the guidance afforded by the PCAF standard across material asset classes¹ where published methodologies have been made available.

What emissions are covered?

Our baseline represents Scope 3 financed emissions which is calculated from the Scope 1 and 2 emissions generated from our investments or lending.

Scope 3 (value chain) emissions from our investments or lending are also calculated and reported separately for certain sectors, aligning to the PCAF standard phased approach. Scope 3 includes all other indirect GHG emissions of the reporting company not included in Scope 2, and can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organisation’s products or services. The comparability, coverage, transparency and reliability of Scope 3 data still varies greatly by sector and data source.

¹ We continue to extend application of PCAF asset class methodologies as we scope for new NZBA targets and improve our data availability. During 2023 this is expected to include the commercial real estate asset class.

Attribution

Aligning to the PCAF standard, we have adopted an attribution factor at a single client or asset class level to measure our share of financed emissions. Where necessary, hierarchies of best-available data and approximations have been used to resolve certain data gaps.

We have incorporated additional detail and explanation on the variations to our approach within the individual business sections.

Data quality score

Where sourcing of emission data by client or by asset type was challenging, adaptations to our approach reflected the hierarchy of options outlined in the PCAF data scoring framework. We used a range of internal and external data sources to determine the Scope 1 and Scope 2 emissions for each asset class and calculated our average data quality scores across all business lines and sectors, using the classification found in PCAF guidance.

Evolution of approach

Throughout 2022, we have continued to mature and refine our measurement of financed emissions across the Group. Progress has been made to extend the scope of our emissions baseline, refine our methodologies and improve data quality, recognising there is still more to do. This includes working in partnership with government, industry and policymakers to improve our approach and calculation estimates.

Further, we have continued to enhance our emissions calculation process, governance and controls via a Group-wide financed emissions framework which follows the Group’s three lines of defence model.

KPMG are engaged on a pre-assurance review of the Group’s financed emissions metrics to support the ability to receive limited assurance on these calculations for 2023 year-end reporting, in line with our NZBA commitments.

We are also assessing the ways we may get external verification of the science-aligned approach of our sector targets, and are working towards Science Based Targets initiative sign up and future verification.

PCAF general data quality score card		
Certain	Score 1	Audited GHG emissions data or actual primary energy data
	Score 2	Non-audited GHG emissions data, or other primary data
	Score 3	Averaged data that is peer/(sub) sector specific
Uncertain	Score 4	Proxy data on the basis of region or country
	Score 5	Estimated data with very limited support

Data sources

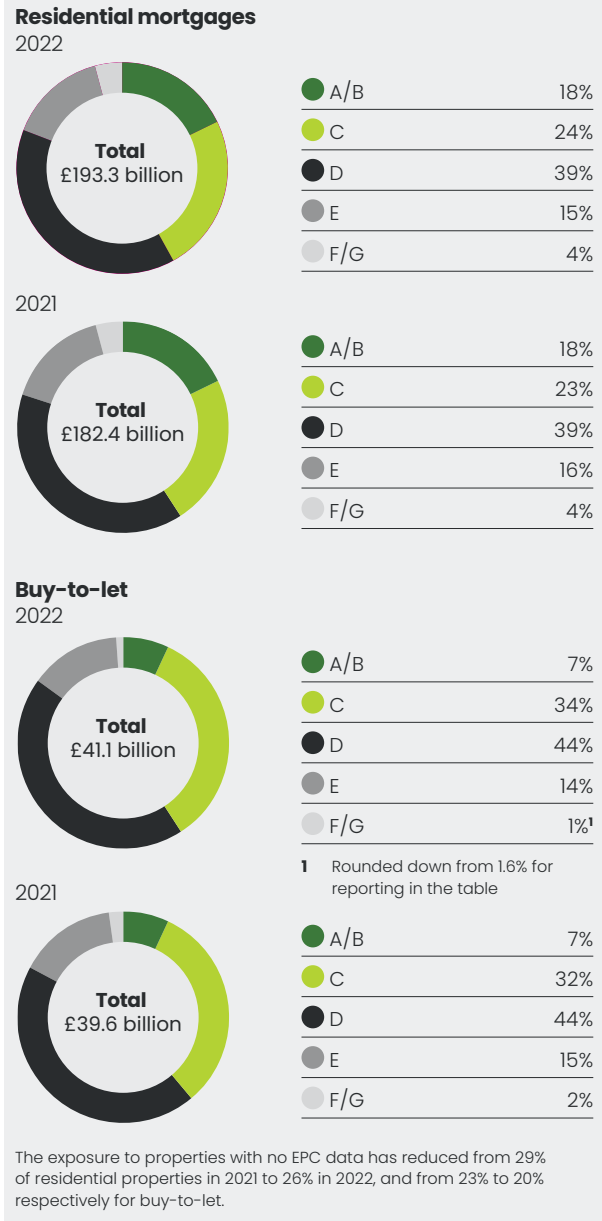
In preparing our Bank sector information the following third party sources have been used.

Third party data sources								
Data source	Financed emissions	Oil and gas	Auto OEM	Aviation	Power	Homes	Motor	Reference source
IEA NZE 2050	No	Yes	Yes	No	Yes – adapted	No	No	<ul style="list-style-type: none"> Based on International Energy Agency (2021), Net Zero by 2050, IEA, Paris Net Zero by 2050 Scenario – Data product – IEA. Based on data from International Energy Agency (2021) Net Zero by 2050: Net Zero by 2050 Scenario – Data product – IEA; as modified by Lloyds Banking Group
S&P Trucost	Yes	Yes	Yes	Yes	Yes	No	No	<ul style="list-style-type: none"> S&P Trucost Limited © Trucost 2022
IATA	No	No	No	Yes	No	No	No	<ul style="list-style-type: none"> International Air Transportation Association (IATA)
IEA ETP 2020	No	No	No	Yes	No	No	No	<ul style="list-style-type: none"> Based on IEA data from IEA 2020 Emerging Technology Perspectives Scenario – Data product – IEA as modified by Lloyds Banking Group
CDP	Yes	Yes	Yes	Yes	Yes	No	No	<ul style="list-style-type: none"> CDP data under licence
Marklines	No	No	Yes	No	No	No	No	<ul style="list-style-type: none"> MarkLines Co Ltd
Public disclosures	Yes	Yes	Yes	Yes	Yes	No	Yes	<ul style="list-style-type: none"> Company public disclosures
ONS	Yes	Yes	Yes	Yes	Yes	No	No	<ul style="list-style-type: none"> Office for National Statistics – Atmospheric emissions: greenhouse gases by industry and gas
BEIS ¹	Yes	Yes	Yes	Yes	Yes	No	Yes	<ul style="list-style-type: none"> Department for Business, Energy & Industrial Strategy – National Atmospheric Emissions Inventory
CCC BNZP	No	No	No	No	No	Yes	Yes	<ul style="list-style-type: none"> Sixth Carbon Budget
Department for Transport	Yes	No	No	No	No	No	Yes	<ul style="list-style-type: none"> Department for Transport – mileage averages
Experian	Yes	No	No	No	No	No	Yes	<ul style="list-style-type: none"> Source : Experian – emissions data where no CAP code is held
CAP HPI	Yes	No	No	No	No	No	Yes	<ul style="list-style-type: none"> CAP HPI provide vehicle level data including vehicle level emissions data
DLUHC	Yes	No	No	No	No	Yes	No	<ul style="list-style-type: none"> Department for Levelling up, Housing and Communities – property level domestic EPC data (England, Wales and Northern Ireland)
EPC	Yes	No	No	No	No	Yes	No	<ul style="list-style-type: none"> statistics.gov.scot :Domestic EPC Certificates (Scotland)
BRE	No	No	No	No	No	Yes	No	<ul style="list-style-type: none"> Building Regulations England

¹ Department for Energy Security and Net-Zero / Department for Business and Trade (formerly Department for Business, Energy & Industrial Strategy).

Total Lending Value of known EPCs

The EPC distribution by lending value for the mortgage book is included within Note 52 of the financial statements. The split between Residential and Buy-to-Let mortgages is shown below for properties with known EPCs:



The exposure to properties with no EPC data has reduced from 29% of residential properties in 2021 to 26% in 2022, and from 23% to 20% respectively for buy-to-let.

Methodology for calculating Scottish Widows financed emissions and targets

Our investments' carbon footprint is the principal metric for measuring our investment portfolio's financed emissions and monitoring progress towards our 2030 and 2050 targets. The footprint is the tonnes of GHG emissions 'owned' by the portfolio. This is measured as carbon dioxide equivalents (CO₂e) 'owned' per £1 million invested.

Baseline

We've selected 2019 to be the baseline year in line with the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC) and guidance from the Institutional Investors Group on Climate Change (IIGCC). To calculate a reduction of emissions produced by the companies in our investment portfolios, we've used the emerging industry standard for calculating financed emissions developed by the PCAF.



To establish emissions data for corporate bonds and equities, we matched our investments against the published emissions data available on those companies from S&P Global Trucost's data and analytics tool. Trucost provides carbon and environmental data and risk analysis for more than 15,000 companies. There is a lack of published emissions data on loan investments.

Therefore, we adopted an alternative PCAF aligned approach to calculate emissions using estimates from Office for National Statistics (ONS) and Department for Business, Energy & Industrial Strategy (BEIS) sector averages. Where applicable this follows the approach taken in Commercial banking.

Limitations of the PCAF methodology

Due to the nature of the calculations we would expect short-term variation of the carbon footprint number generated by the PCAF standard. In any given year the metric is impacted by: a) changes in reported emissions; b) changes in enterprise value; and c) our own investment activity.

In the example where equity markets are strong and the value of our investment increases in line with the enterprise value, this would drive a material reduction in carbon footprint even in the absence of any underlying change in the reported emissions of the company in which we are invested. Therefore, acknowledging this is a long-term target, it is important to study the medium-term trend from future reporting.

Example of an equity emissions calculation (Illustrative example)

Investment ÷ Total enterprise value¹ × Total company emissions² =  Financed emissions

Example company

£160m ÷ £4,000m × 2.8 MtCO₂ = 0.1 MtCO₂
per £1 million invested

1 Market cap + book value of debt.

2 Scope 1 + Scope 2.

Methodology for supply chain

We align our Scope 3 supply chain GHG emissions to the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The following categories are included in our Scope 3 supply chain emissions:

Category 1: Purchased goods and services – all upstream emissions from the production of goods and services purchased or acquired by the Group not otherwise included in Categories 2 and 4. This includes goods and services relating to IT, cyber, operations, management consultancy, legal, HR, marketing and communications.

Category 2: Capital goods – all upstream emissions from the production of capital goods purchased or acquired by the Group. This includes IT hardware and relevant property related goods (e.g. fixtures and fittings).

Category 4: Upstream transportation and distribution – emissions from transportation and distribution of products purchased, between the Group's tier 1 suppliers and its own operations in vehicles not owned or operated by the Group, and emissions from third-party transportation and distribution services purchased by the Group. This includes mail and logistics.

Supply chain emissions follows a spend-based methodology on spend with approximately 2,600 third parties.

This is based on an extract of Accounts Payable data from the Group's SAP Enterprise Resource Planning Central Component (ECC) system. The Accounts Payable data is a subset of the Group's General Ledger (GL) used to produce the Group's annual report & accounts.

Based on the GHG Protocol guidance, the following are examples of spend, which the Group have deemed out of scope of categories 1, 2 and 4:

- Intermediaries and broker fees
- Leased assets
- Sponsorship and community spend
- Travel spend
- Taxes and regulatory fees

Calculation basis

Following categorisation of the Group's Scope 3 third-party spend into the relevant GHG category, one of two approaches are used to calculate the emissions.

Approach 1: Where third-party Scope 1, 2 and 3 emissions and overall revenue data is reported in CDP, this data is used to calculate the emissions as follows:

$$\text{Group Third Party Spend} \times \text{Third Party Emissions} \div \text{Overall Third Party Revenue}$$

Alternatively, where a supplier can allocate emissions to the goods and services provided to Group via the CDP Supply Chain Module, these allocated emissions are used.

Approach 2: Where CDP data is not available, CEDA industry factors are applied to calculate emissions for each spend category. CEDA (Comprehensive Environmental Data Archive) is an Environmentally Extended Input-Output database which provides emission factors linking spend on goods/services to emissions.

For each good/service that a third party provides, this is matched against an equivalent CEDA category. Each CEDA category has an associated emissions factor based on spend (kgCO₂e/£). The associated emissions factor is multiplied by the third-party spend to give emissions for that third-party's activity.

An integral part of our overall calculation and reporting process is a defined Control Framework to ensure associated risks are monitored and controlled. Our reporting process includes a continuous review of our data collection practices; we aim to improve our data collection through primary and verified sources.

We have defined a process for evaluating the requirement to recalculate and restate our Scope 3 supply chain emissions data. The materiality threshold to trigger any restatement process is set at 5 per cent.

Baseline

Our baseline year is the reporting period 1 October 2021 to 30 September 2022.



Methodology for own operations

The Group follows the principles of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard to calculate Scope 1, 2 and 3 emissions from our worldwide operations. The reporting period is 1 October 2021 to 30 September 2022, and data from 2018/2019, 2019/20 and 2020/21 are reinstated to improve the accuracy of reporting, using actual data to replace estimates, historical emissions associated with Embark Group's properties, and improved escaped refrigerant related emissions.

Emissions are reported based on the operational control approach. Reported Scope 1 emissions are those generated from gas and oil used in buildings, emissions from fuels used in UK company owned vehicles used for business travel and fugitive emissions from the use of air conditioning and chiller/refrigerant plant. Reported Scope 2 emissions are generated from the use of electricity and are calculated using market-based methodologies on this report. Our pledge to reducing travel-related carbon emissions includes Scope 3 emissions that relate to business travel (category 6) and commuting (category 7) undertaken by colleagues.

We also report additional categories such as emissions from colleagues working from home (category 7), operational waste (category 5) and the extraction and distribution of each of our energy sources – electricity, gas and oil (category 3).

Our full disclosure datasets and the methodology to derive reported operational Scope 1, 2 and 3 emissions is provided in the **Lloyds Banking Group Reporting criteria statement** and **ESG performance review** available online



Bank lending to customers in sectors with increased climate risk

1 Based on the standard European nomenclature of productive activities (NACE codes) as presented within the Lloyds Banking Group annual report and accounts 2022, Notes to the consolidated financial statements (note 52: Financial Risk Management, (B) Concentrations of Exposure). Exposure is based on total loans and advances to customers and reverse repos before allowance for impairment losses.

2 Based on standard industrial classification (SIC) codes.

3 Real estate includes social housing.

2022 Lending to customers (£m)

Concentration of exposure ¹	Sectors with increased climate risk ²	Sector with increased climate risk			Lending by credit loss stage					Lending by maturity			
		In scope	Out of scope	Total	Stage 1	Stage 2	Stage 3	POCI	Total	< 1 year	2–5 years	> 5 years	Total
Agriculture, forestry and fishing	Agriculture	7,420	–	7,420	6,517	694	209	–	7,420	1,361	1,552	4,507	7,420
	Fishing	18	–	18	17	1	–	–	18	1	10	6	18
	Forestry	9	–	9	7	2	–	–	9	1	4	4	9
	Total	7,447	–	7,447	6,541	697	209	–	7,447	1,363	1,566	4,517	7,447
Construction	Coal mining	–	–	–	–	–	–	–	–	–	–	–	–
	Housebuilders	347	–	347	248	99	–	–	347	145	201	1	347
	Oil and gas	675	–	675	591	37	47	–	675	152	316	207	675
	Other construction	2,998	–	2,998	2,146	461	391	–	2,998	1,233	1,512	253	2,998
	Out of scope	–	46	46	–	–	–	–	–	–	–	–	–
	Total	4,020	46	4,066	2,985	597	438	–	4,020	1,530	2,029	461	4,020
Energy and water supply	Utilities	2,234	–	2,234	2,136	72	26	–	2,234	561	773	939	2,234
	Out of scope	–	318	318	–	–	–	–	–	–	–	–	–
	Total	2,234	318	2,552	2,136	72	26	–	2,234	561	773	939	2,234
Financial, business and other services	Automotive	370	–	370	354	16	–	–	370	87	274	9	370
	Real estate	152	–	152	152	–	–	–	152	52	83	17	152
	Out of scope	–	37,144	37,144	–	–	–	–	–	–	–	–	–
	Total	522	37,144	37,666	506	16	–	–	522	139	357	26	522
Manufacturing	Automotive	173	–	173	162	9	2	–	173	33	134	5	173
	Construction materials, chemicals and steel manufacture	262	–	262	224	36	2	–	262	76	152	34	262
	Food manufacturing and wholesalers	1,218	–	1,218	1,114	77	27	–	1,218	664	461	92	1,218
	General manufacturing	1,581	–	1,581	1,319	202	60	–	1,581	885	532	164	1,581
	Oil and gas	13	–	13	13	–	–	–	13	12	1	–	13
	Out of scope	–	372	372	–	–	–	–	–	–	–	–	–
	Total	3,247	372	3,619	2,832	324	91	–	3,247	1,670	1,280	295	3,247
Postal and telecommunications	Out of scope	–	2,526	2,526	–	–	–	–	–	–	–	–	–
	Total	–	2,526	2,526	–	–	–	–	–	–	–	–	–
Property companies	Real estate ³	21,499	–	21,499	16,620	4,552	327	–	21,499	5,565	10,505	5,429	21,499
	Total	21,499	–	21,499	16,620	4,552	327	–	21,499	5,565	10,505	5,429	21,499
Transport, distribution and hotels	Automotive	1,898	–	1,898	1,787	79	32	–	1,898	374	965	559	1,898
	Industrial transport	1,077	–	1,077	775	296	6	–	1,077	139	723	215	1,077
	Oil and gas	137	–	137	137	–	–	–	137	36	40	61	137
	Passenger transport	1,200	–	1,200	801	384	15	–	1,200	502	618	80	1,200
	Out of scope	–	8,858	8,858	–	–	–	–	–	–	–	–	–
	Total	4,312	8,858	13,170	3,500	759	53	–	4,312	1,051	2,346	915	4,312
Personal (mortgages and other)	In scope	350,077	–	350,077	288,944	47,431	4,080	9,622	350,077	18,873	59,460	271,743	350,077
	Total	350,077	–	350,077	288,944	47,431	4,080	9,622	350,077	18,873	59,460	271,743	350,077
Lease financing and hire purchase	In scope	16,795	–	16,795	14,173	2,465	157	–	16,795	5,869	10,445	482	16,795
	Total	16,795	–	16,795	14,173	2,465	157	–	16,795	5,869	10,445	482	16,795
Total		410,153	49,264	459,417	338,237	56,913	5,381	9,622	410,153	36,621	88,721	284,807	410,153
Sub total of sectors spanning multiple industries	Oil and gas	825	–	825	741	37	47	–	825	200	357	268	825
	Automotive	2,441	–	2,441	2,303	104	34	–	2,441	495	1,373	573	2,441
	Real estate	21,651	–	21,651	16,772	4,552	327	–	21,651	5,616	10,588	5,447	21,651

2021 Lending to customers (£m)													
Concentration of exposure	Sectors with increased climate risk	Sectors with increased climate risk			Lending by credit loss stage					Lending by maturity			
		In scope	Out of scope	Total	Stage 1	Stage 2	Stage 3	POCI	Total	< 1 year	2-5 years	> 5 years	Total
Agriculture, forestry And fishing	Agriculture	7,695	–	7,695	6,961	541	193	–	7,695	1,462	1,601	4,631	7,695
	Fishing	24	–	24	20	4	–	–	24	3	13	9	24
	Forestry	10	–	10	7	1	2	–	10	1	5	4	10
	Total	7,729	–	7,729	6,998	546	195	–	7,729	1,466	1,619	4,644	7,729
Construction	Coal mining	–	–	–	–	–	–	–	–	–	–	–	–
	Housebuilders	373	–	373	318	49	6	–	373	154	217	1	373
	Oil and gas	794	–	794	673	98	23	–	794	154	298	343	794
	Other construction	3,047	–	3,047	1,994	634	419	–	3,047	1,021	1,720	304	3,047
	Out of scope	–	226	226	–	–	–	–	–	–	–	–	–
	Total	4,214	226	4,440	2,985	781	448	–	4,214	1,329	2,235	648	4,214
Energy and water supply	Utilities	1,575	–	1,575	1,543	7	25	–	1,575	474	450	651	1,575
	Out of scope	–	403	403	–	–	–	–	–	–	–	–	–
	Total	1,575	403	1,978	1,543	7	25	–	1,575	474	450	651	1,575
Financial, business and other services	Automotive	200	–	200	162	38	–	–	200	47	140	12	200
	Real estate	38	–	38	38	–	–	–	38	17	16	5	38
	Out of scope	–	33,295	33,295	–	–	–	–	–	–	–	–	–
	Total	238	33,295	33,533	200	38	–	–	238	64	156	17	238
Manufacturing	Automotive	299	–	299	291	8	–	–	299	58	214	26	299
	Construction materials, chemicals and steel manufacture	240	–	240	189	45	6	–	240	60	150	29	240
	Food manufacturing and wholesalers	1,105	–	1,105	979	65	61	–	1,105	561	462	.81	1,105
	General manufacturing	1,936	–	1,936	1,642	215	79	–	1,936	1,113	677	149	1,936
	Oil and gas	136	–	136	136	–	–	–	136	115	12	8	136
	Out of scope	–	394	394	–	–	–	–	–	–	–	–	–
	Total	3,716	394	4,110	3,237	333	146	–	3,716	1,907	1,515	293	3,716
Postal and telecommunications	Out of scope	–	2,109	2,109	–	–	–	–	–	–	–	–	–
	Total	–	2,109	2,109	–	–	–	–	–	–	–	–	–
Property companies	Real estate ³	23,923	–	23,923	21,725	1,729	469	–	23,923	5,963	11,486	6,474	23,923
	Total	23,923	–	23,923	21,725	1,729	469	–	23,923	5,963	11,486	6,474	23,923
Transport, distribution and hotels	Automotive	1,911	–	1,911	1,830	54	27	–	1,911	371	982	558	1,911
	Industrial transport	1,286	–	1,286	1,122	154	10	–	1,286	177	858	251	1,286
	Oil and gas	117	–	117	117	–	–	–	117	3	43	70	117
	Passenger transport	1,177	–	1,177	705	423	49	–	1,177	108	910	160	1,177
	Out of scope	–	8,972	8,972	–	–	–	–	–	–	–	–	–
	Total	4,491	8,972	13,463	3,774	631	86	–	4,491	659	2,793	1,039	4,491
Personal (mortgages and other)	In scope	344,259	–	344,259	305,066	25,389	2,380	11,424	344,259	19,760	59,617	264,882	344,259
	Total	344,259	–	344,259	305,066	25,389	2,380	11,424	344,259	19,760	59,617	264,882	344,259
Lease financing and hire purchase	In scope	16,843	–	16,843	14,527	2,112	204	–	16,843	4,334	11,889	620	16,843
	Total	16,843	–	16,843	14,527	2,112	204	–	16,843	4,334	11,889	620	16,843
Total		406,988	45,399	452,387	360,045	31,566	3,953	11,424	406,988	35,956	91,760	279,269	406,988
Sub total of sectors spanning multiple industries	Oil and gas	1,047	–	1,047	926	98	23	–	1,047	273	353	421	1,047
	Automotive	2,410	–	2,410	2,283	100	27	–	2,410	478	1,336	596	2,410
	Real estate	23,961	–	23,961	21,763	1,729	469	–	23,961	5,980	11,502	6,479	23,961

Forward-looking statements

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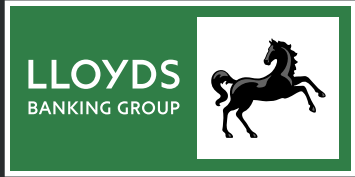
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