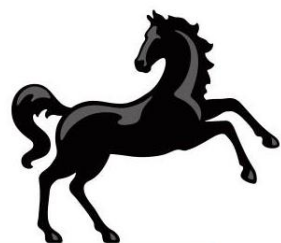




SUSTAINABILITY BOND FRAMEWORK

March 2019

LLOYDS
BANKING
GROUP



Key Sustainability Highlights:

Green

- Financing energy efficient, large-scale commercial and residential real estate projects
- Financing renewable energy projects including:
 - Offshore wind farms and their associated transmission assets
 - Onshore wind farms
 - Solar energy
 - Tidal energy
- Avoidance of areas that Sustainability investors consider to have negative environmental impacts

Social

- SME financing in economically disadvantaged areas, with an emphasis on healthcare
- Avoidance of areas that Sustainability investors consider to have negative social impacts

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Lloyds Banking Group Sustainability Bond Framework

1. Introduction

Lloyds Banking Group's ("Lloyds") Sustainability Bond Framework has developed from the ESG Bond Framework originally established in 2014. The Green / Social / Sustainability Bond market has evolved since Lloyds last issued an ESG bond in June 2015, with the creation of the UN's Sustainable Development Goals¹ and the introduction of the ICMA Sustainability Bond Guidelines². This framework is designed to incorporate these developments, as well as updates to Lloyds' 'Helping Britain Prosper' strategy since 2014³ and the Group's new Sustainability Strategy developed in 2018.

Through our products and services, Lloyds has been helping Britain prosper for more than 250 years and today we help 27 million customers with their financial needs. Our Helping Britain Prosper Plan, established in 2014, takes us beyond business as usual. It tackles the social, economic and environmental issues that matter to Britain: its people, businesses, environment and communities. It differentiates, unites and inspires our Group and colleagues to meet some bold targets. In 2018, Lloyds developed a new Sustainability strategy focusing on the opportunities and threats related to climate change and the sustainable use of resources. Our goal is to be a leader in supporting the UK to successfully transition to a more sustainable, low carbon economy.

Lloyds Banking Group has been voted Responsible Business of the Year 2018 by Business in The Community⁴, which highlighted our Helping Britain Prosper Plan commitments to delivering social benefits through digital transformation and support for the lower carbon economy. Euromoney magazine has also ranked Lloyds Best Bank in Western Europe for Corporate Responsibility 2018⁵.

The Sustainability Bond Framework is designed to align our Helping Britain Prosper Plan with sustainable funding from investors, contributing towards the significant investments required to achieve the UN's Sustainable Development Goals ("SDGs") and our goal to be a leader in financing the transition to a sustainable, low carbon UK economy.

The Sustainability Bond Framework also aligns to the 2018 Green Bond Principles, the 2018 Social Bond Principles and the 2018 Sustainability Bond Guidelines, as published by ICMA.

2. Use of Proceeds

The proceeds of any Lloyds Sustainability Bond will be used to finance or refinance (in whole or in part) loans to businesses and projects that deliver positive social and/or environmental benefits.

The Helping Britain Prosper Plan and Sustainability Strategy

Lloyds launched the Helping Britain Prosper ("HBP") Plan in 2014, as a corporate responsibility strategy designed to address the significant social and environmental issues facing the Bank's clients.

The HBP Plan is simple yet ambitious. It sets out seven key commitments and over 20 independently verified performance metrics that cover the areas in which Lloyds can have the greatest positive impact, focusing on helping UK households, businesses, the environment and communities.

The seven key areas of focus are; helping Britain get a home; helping people save for the future; building capability and digital skills; supporting businesses to start up and grow; helping the transition

¹ <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

² ICMA, *The Sustainability Bond Guidelines (SBG) 2018*

³ Lloyds Banking Group, *Our 2019 Helping Britain Prosper Plan*

⁴ <https://www.bitc.org.uk/resources-training/resources/impact-stories/responsible-business-year-lloyds-banking-group-building>

⁵ <https://www.euromoney.com/article/b18ljr1hk0cmlw/western-europe39s-best-bank-for-corporate-responsibility-2018-lloyds-banking-group>

to a sustainable low carbon economy; tackling social disadvantage across Britain and; championing Britain's diversity.

The Group in 2018 developed a new environmental Sustainability Strategy, with the goal of being a leader in financing the transition to a sustainable, low carbon economy. We have set ourselves seven ambitions anchored to the goals laid out in the UK Government's Clean Growth Strategy, as these align closely to our business priorities. These ambitions span our activity in; business; homes; vehicles; pensions and investments; insurance; improving our own footprint and; Sustainability Bonds.

The Lloyds Sustainability Bond Framework incorporates specific sustainable funding initiatives which have specific lending criteria: our i) Social lending to SMEs in the UK; ii) our Real Estate & Housing Green Lending and; iii) our lending to Renewable Energy Projects. Together, each of the initiatives addresses a number of the UN's Sustainable Development Goals.

i. Social lending to SMEs in the UK

As part of the HBP Plan, we lend to SMEs (businesses with a turnover between £3m to £25m per annum) or agricultural enterprises that pass through the exclusionary criteria (please see *Eligibility Criteria*) and are located in the 30% most economically disadvantaged areas of the UK, with a focus on Healthcare. This lending adheres to two commitments of the HBP Plan, *supporting businesses to start up and grow* and *tackling social disadvantage across Britain*.

The proceeds of the 2014 and 2015 ESG bonds were allocated to this type of lending, providing over 1,000 loans across 17 industrial sectors. We are continuing to support these businesses by allocating the proceeds of any new Sustainability Bonds to them.

This lending is aligned to goals 1, 3, 8 and 10 of the UN's SDGs, providing good jobs and economic growth, preventing poverty, reducing inequality and promoting good health and wellbeing. Please see Appendix A for a further breakdown.



ii. Real Estate & Housing (“RE&H”) Green Lending

One of the performance metrics of the HBP Plan is the amount of commercial real estate space Lloyds will fund, to encourage more energy efficient buildings. This metric refers to the RE&H Green Lending Initiative, which contributes to our environmental commitment to Helping Britain Prosper, *helping the transition to a sustainable low carbon economy*.

In April 2016, Lloyds launched the first of its kind £1bn Green Lending Initiative for commercial real estate lending to incentivise clients' adoption of energy efficient measures and reduction in CO₂ emissions from their real estate assets, by offering discounted lending to eligible investments.

The performance metric of this fund for 2018 was successfully achieved, financing over 1 million square foot of real estate space. Our new target is to finance 5 million square foot of green real estate in total by 2020.

RE&H Green Lending that passes through the Green Criteria (see Eligibility Criteria) financed to date and in the future, either within the Green Lending Initiative or as standalone projects, will be eligible for the use of proceeds of any Sustainability Bonds.

RE&H Green Lending is aligned to goals 7 and 11 of the UN's SDGs, to help provide more access to affordable and sustainable energy and helping to build sustainable cities and communities. Please see Appendix A for a further breakdown.



iii. Financing Renewable Energy Projects

In 2018, we added a new performance metric to the HBP Plan to help provide power for 5 million homes by 2020, through our support for renewable energy projects in the UK – in 2018 we have already supported enough renewable energy projects to generate power for 2.6 million homes, over half of our final target already.

The Clean Growth Financing Initiative, launched in May 2018⁶, is a £2bn commitment that aims to deliver the most inclusive UK green lending in the market by providing the incentive of discounted lending to help businesses to fund new or improved assets or projects with clear links to improving sustainability. The funding will support Commercial Banking clients (excluding large corporate RE&H clients already eligible for the RE&H Green Lending Initiative) across multiple green lending ambitions, including renewable energy projects.

To support the new £2bn investment Lloyds has partnered with the University of Cambridge Institute for Sustainability Leadership to provide specialist training to over 300 Relationship Managers to help them to support clients' sustainability initiatives.

Lloyds has a dedicated Infrastructure and Project Finance (I&PF) team within the Large Corporates division who originate, structure, arrange and underwrite limited recourse finance in the infrastructure and energy sectors both for Lloyds Bank and Scottish Widows, in the UK and abroad. These renewable energy projects can be originated under the Clean Growth Financing Initiative utilising the discounted lending incentive, or as stand-alone projects - both pathways contributing to our environmental and sustainability commitments to Helping Britain Prosper, *helping the transition to a sustainable low carbon economy*. Renewable energy projects in the UK and abroad financed by the team to date and in the future are expected to include the following forms:

- Offshore wind farms and their associated transmission assets
- Onshore wind farms
- Solar energy
- Tidal energy

Renewable energy projects in the UK and abroad financed by the I&PF team will be eligible for the use of proceeds of any Sustainability Bonds. This financing is aligned to goal 7 of the UN's SDGs to help provide more access to affordable and sustainable energy. Please see Appendix A for a further breakdown.



Summary

Lloyds aims to use the proceeds of any Sustainability Bonds to finance both Social and Green assets, adhering to three commitments of the HBP plan, supporting our sustainability strategy, and in alignment with ICMA's 2018 Sustainability Bond Guidelines and the UN's SDGs.

We will help *support businesses to start up and grow and tackle social disadvantage across Britain* by:

- lending to businesses located in the bottom 30% of disadvantaged areas across Britain, with a focus on Healthcare

We will *help the transition to a sustainable low carbon economy* by:

- financing the energy efficient assets of UK commercial real estate clients, as stand-alone projects or through offering discounted lending through the RE&H Green Lending Initiative
- financing renewable energy projects, as stand-alone projects or through offering discounted lending through the Clean Growth Financing Initiative

From this mix of Social and Green assets, we will continue to Help Britain Prosper in a sustainable way.

⁶ <https://www.lloydsbankinggroup.com/Media/Press-Releases/2018-press-releases/lloyds-banking-group/lloyds-banking-group-launches-2bn-clean-growth-finance/>

3. Eligibility Criteria

Loans that will be originated in the future, or have been originated up to two years prior to the date of issuance of each respective Sustainability Bond will be considered eligible for Sustainability Bond proceeds if they satisfy criteria i., and also one of either ii. or iii., as follows:

i. Exclusionary Criteria

Exclusionary Criteria is intended to ensure the eligibility of the bond for major ethical and socially responsible investors.

Businesses whose primary business activity sits within any of the following business sectors will not be considered eligible assets or be eligible for loans under any Sustainability Bonds:

- Alcohol
- Gambling
- Tobacco
- Military weapons
- Payday lending
- Fossil fuels
- Palm oil

Sustainalytics has identified a list of SIC codes that will be used to identify these businesses (see Appendix B).

ii. Social Criteria

These criteria consist of thematic criteria that will insure the bond proceeds are channelled towards Social areas aligned to the UN's SDGs, ICMA's Social Bond Principles and our own HBP Plan.

Businesses that pass through the exclusionary criteria stage will qualify for the proceeds of any Sustainability Bonds if they fulfil one or more of the following criteria:

- SME located in the 30% most economically disadvantaged areas of the UK
- Healthcare provider located in the 30% most economically disadvantaged areas of the UK

iii. Green Criteria

These criteria consist of thematic criteria that will insure the bond proceeds are channelled towards Green areas aligned to the UN's SDGs, ICMA's Green Bond Principles and our own HBP Plan.

Loans that pass through the exclusionary criteria stage are then considered on a case by case basis to qualify for Sustainability Bond proceeds if they fulfil one or more of the following criteria:

- UK real estate clients looking for Property Development or Property Investment financing of their energy efficient commercial or residential real estate assets:
 - For commercial buildings the build requirement is to either a minimum of BREEAM Very Good (provided a minimum score of 70% is achieved in the energy category) or EPC B
 - For residential buildings the minimum build requirement is to be EPC B on the Environmental Impact rating
- Infrastructure, Energy and Project Finance clients in the UK and abroad looking for financing of the following renewable energy projects:
 - Offshore wind farms and their associated transmission assets
 - Onshore wind farms
 - Solar energy
 - Tidal energy

4. Process for Evaluation and Selection

Project evaluation and monitoring is owned by the Commercial Banking Client Asset Management (CAM) business in collaboration with Group Corporate Treasury, Debt Capital Markets, Real Estate and Housing, and Infrastructure and Project Finance. If explicit Social and Green criteria are met, in accordance with the Framework's agreed Eligibility Criteria, Sustainability Bond proceeds will be allocated to the project up to the total loan value.

CAM is also responsible for governing the Framework to ensure consistency of approach and oversight. On a monthly basis, CAM will produce an internal report confirming the level of proceeds allocated to eligible sustainability assets (per Eligibility Criteria) versus proceeds held in liquid assets.

- i. A definition of sustainability assets has been defined in the Eligibility Criteria for the purposes of identifying and monitoring potentially eligible businesses or projects. Any potentially eligible business or project will have already been evaluated for adherence to Lloyds Banking Group's sector statements: <https://www.lloydsbankinggroup.com/Our-Group/responsible-business/sustainability-in-lloyds-banking-group/managing-sustainability-issues/>
- ii. Eligible SME loans are automatically identified and included in the internal ESG database using internal and externally available filtering metrics. A manual review is also undertaken ahead of allocation to ensure consistency with the Eligibility Criteria. Renewable Energy Projects and RE&H Green Lending loans originate from within the Commercial Banking business and are individually verified in accordance with the Eligibility Criteria.
- iii. In all cases, CAM will have a final veto on Use of Proceeds eligibility.

5. Management of Proceeds

CAM will track the Use of Proceeds of a Sustainability Bond via their internal information systems, as per the Process for Evaluation and Selection. CAM will record each specific asset allocated as a Use of Proceeds for a Sustainability Bond across all asset areas. Upon issuance of a Sustainability Bond, Lloyds will hold the proceeds in liquid assets, until all the proceeds have been allocated to eligible sustainability assets according to the Eligibility Criteria. Lloyds will endeavour to allocate at least the balance of the Sustainability Bond proceeds to eligible sustainability assets within two years.

6. Assessment and Reporting Process

Lloyds will report against each of the Impact Reporting Metrics outlined in Appendix A. In order to ensure transparency and traceability of the Use of Proceeds, Lloyds has committed to the following Assessment and Reporting Process:

i. Management Oversight of the Use of Proceeds (Internal)

Lloyds has elected executive sponsors internally from within Commercial Banking Client Asset Management (CAM) business to ensure that the selection and reporting process is robust.

On a monthly basis, CAM will produce an internal report confirming the level of proceeds that have been allocated to the qualifying sustainability assets (per Eligibility Criteria) versus those held in liquid assets. CAM will be fully responsible for the completeness, accuracy and validity of reports produced by them. There will be appropriate preparer and reviewer segregation of duties and final sign off will be undertaken by a senior CAM executive.

ii. Reporting on Use of Proceeds (External)

All reports below will be made publicly available in the Investor Relations section of Lloyds' website, and will be produced by the elected Lloyds CAM team.

A. Annual Allocation Report (prior to Final Allocation Report)

Lloyds will provide an Annual Allocation Report up until proceeds have been allocated in full to eligible sustainability assets. This will be reviewed and endorsed by an independent auditor. This report will provide a summary of the proceeds that have been allocated to the eligible sustainability assets versus proceeds held in liquid assets. This report will provide investors with a breakdown of amounts lent into each of the Eligibility Criteria, as well as provide the impact reporting on any Sustainability Bond proceeds, measured by the impact reporting metrics set out in Appendix A.




B. Final Allocation Report

Once the bond proceeds have been allocated in full to eligible sustainability assets, Lloyds will communicate the final Use of Proceeds to investors via a Final Allocation Report. This report will provide investors with a breakdown of amounts lent into each of the Eligibility Criteria, as well as displaying selected examples of individual loans (subject to borrower consent). The report will also provide the final impact reporting on any Sustainability Bond proceeds, measured by the impact reporting metrics set out in Appendix A.

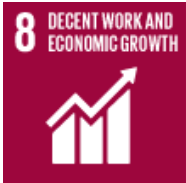

C. Annual Compliance Report (post Final Allocation Report)

Lloyds will produce an Annual Use of Proceeds Report reviewed and endorsed by an independent auditor attesting that Lloyds has maintained a balance of eligible sustainability assets at least equal to the bond proceeds. This report will provide investors with a breakdown of amounts lent into each of the Eligibility Criteria, as well as display the final impact reporting on any Sustainability Bond proceeds, measured by the impact reporting metrics set out in Appendix A.

7. Appendix A: Alignment of Framework to SDGs and Impact Reporting Metrics⁷

Sustainable Development Goal	ICMA Green and Social Bond Principle Category	Eligible Assets and Impact Reporting Metrics
<p>End poverty in all its forms everywhere</p> 	<ul style="list-style-type: none"> • Access to Essential Services • Socioeconomic Advancement and Empowerment 	<p>Social lending to SMEs in the UK:</p> <ul style="list-style-type: none"> • Number and amount of loans to SMEs located in the 30% most economically disadvantaged areas <p>Renewable Energy Projects:</p> <ul style="list-style-type: none"> • Average number of homes that could be powered as a result of our support of UK renewable energy projects
<p>Ensure healthy lives and promote well-being for all at all ages</p> 	<ul style="list-style-type: none"> • Access to Essential Services • Affordable Basic Infrastructure • Pollution Prevention and Control • Renewable Energy 	<p>Social lending to SMEs in the UK:</p> <ul style="list-style-type: none"> • Number and amount of loans to sectors within Human Health and Social Work <p>RE&H Green Lending:</p> <ul style="list-style-type: none"> • Total square foot amount of energy efficient property funded <p>Renewable Energy Projects:</p> <ul style="list-style-type: none"> • Average number of homes that could be powered as a result of our support of UK renewable energy projects
<p>Ensure access to affordable, reliable, sustainable and modern energy for all</p> 	<ul style="list-style-type: none"> • Renewable Energy • Energy Efficiency 	<p>RE&H Green Lending:</p> <ul style="list-style-type: none"> • Total square foot amount of energy efficient property funded <p>Renewable Energy Projects:</p> <ul style="list-style-type: none"> • Average number of homes that could be powered as a result of our support of UK renewable energy projects • The total MW capacity installed or in construction

⁷ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Mapping-SDGs-to-Social-and-Sustainability-Bonds-Final-030818.pdf>

Sustainable Development Goal	ICMA Green and Social Bond Principle Category	Eligible Assets and Impact Reporting Metrics
<p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> 	<ul style="list-style-type: none"> • Access to Essential Services • Employment Generation • Socioeconomic Advancement and Empowerment 	<p>Social lending to SMEs in the UK:</p> <ul style="list-style-type: none"> • Number and amount of loans to SMEs in the 30% most economically disadvantaged areas •
<p>Reduce inequality within and among countries</p> 	<ul style="list-style-type: none"> • Access to Essential Services • Socioeconomic Advancement and Empowerment 	<p>Social lending to SMEs in the UK:</p> <ul style="list-style-type: none"> • Number and amount of loans to SMEs in the 30% most economically disadvantaged areas
<p>Make cities and human settlements inclusive, safe, resilient and sustainable</p> 	<ul style="list-style-type: none"> • Green Buildings 	<p>RE&H Green Lending:</p> <ul style="list-style-type: none"> • Total square foot amount of energy efficient property funded

8. Appendix B: SIC 2007 Codes for Exclusionary Criteria

Exclusionary Criteria	SIC 2007 Code	Description
Alcohol	46342	Wholesale of wine, beer, spirits and other alcoholic beverages
	11010	Distilling, rectifying and blending of spirits
Gambling	92000	Gambling and betting activities
Tobacco	1150	Growing of tobacco
	12000	Manufacture of tobacco products
	46350	Wholesale of tobacco products
	47260	Retail sale of tobacco products in specialized stores
Military Weapons	30400	Manufacture of military fighting vehicles
	25400	Manufacture of weapons and ammunition
Payday lending	64999	Financial Intermediation
	64929	Other Credit Granting
	64929	Specialist consumer credit grantors
Fossil Fuels	5101	Deep coal mines
	5102	Open cast coal mines
	5200	Mining of lignite
	6100	Extraction of crude petroleum
	6200	Extraction of natural gas
	8920	Extraction of peat
	20110	Manufacture of industrial gases
	19100	Manufacture of coke oven products
Palm Oil	35210	Manufacture of gas
	1260	Oil Palm Growing
	10410	Palm Oil Production / Refining